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Market Pulse

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

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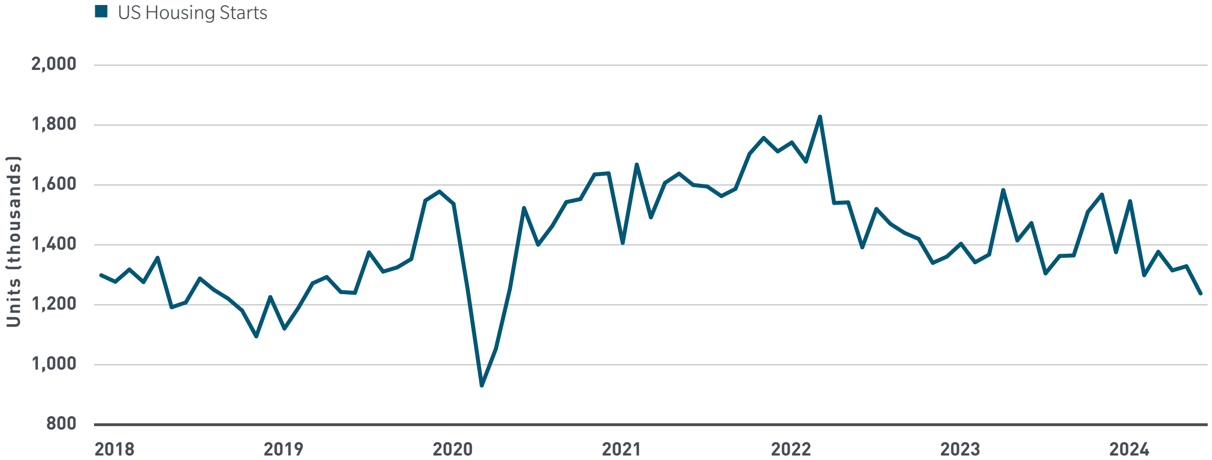
KEY TAKEAWAYS

- US consumers have faced years of higher prices and debt costs, yet consumption continues to surprise to the upside. Fewer banks are tightening lending standards, which could help borrowers if continued.
- A significant uptick in job layoffs is central to the case for a hard landing, but the trend in company layoff announcements continues to point to a soft-landing scenario.
- Single-family starts and permits declined significantly due in part to stubbornly high mortgage and construction loan rates, while multi-family starts rose significantly.
- While fixed income overall remains attractive, given expected Fed cuts and a sanguine economic outlook, equity prospects have improved under the same expectations.

Economy & Markets

US Growth

US HOUSING STARTS CONTINUE TO SLOW



Source: Bloomberg. Monthly data from 31 January 2018 to 31 July 2024.

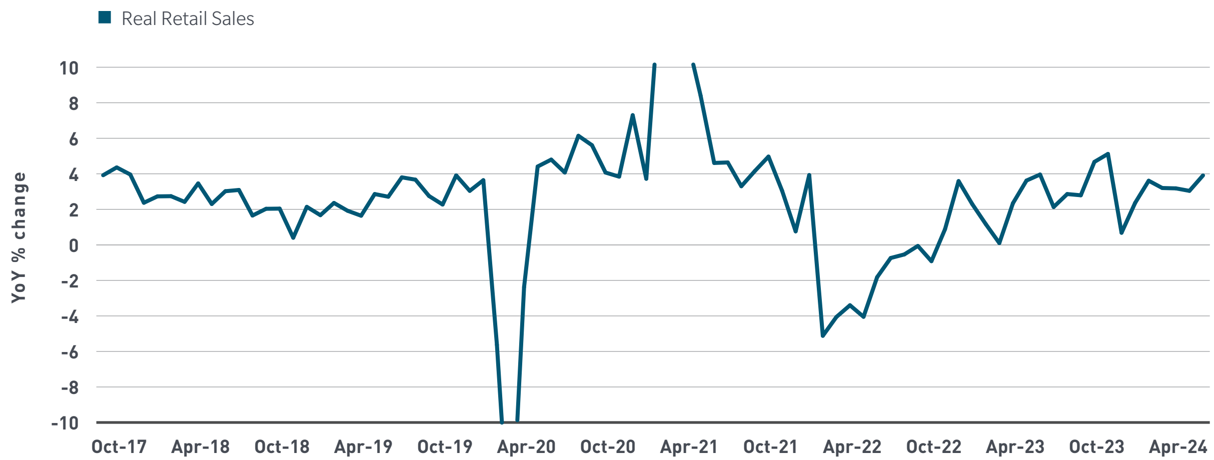
Pressure easing housing concerns

MFS PERSPECTIVE

- US housing starts have slowed to the lowest level in four years, reflecting some easing of demand, which could feed into lower inflation.
- High mortgage rates and pent-up demand led to one of the least affordable housing markets in decades.

US Consumer

THE US CONSUMER CONTINUES TO SPEND AT A HEALTHY PACE



Source: Bloomberg, US Census Bureau, Bureau of Labor Statistics. Real retail sales = nominal retail sales adjusted by goods-only CPI inflation. Monthly data from 31 October 2017 to 31 July 2024.

Real retail sales have been robust

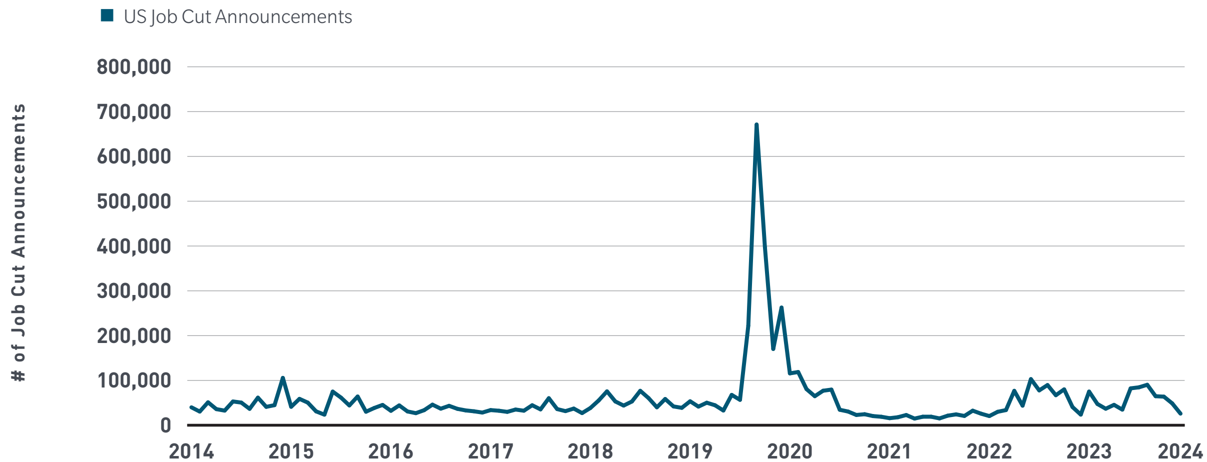
MFS PERSPECTIVE

- There are few signs in the macro data that US consumers are ready to hit the brakes.
- A resilient consumer is central to the soft-landing scenario.
- With the labor market cooling, it will be critical to continue monitoring spending behaviors.

Economy & Markets

Labor Market

US COMPANIES ARE ANNOUNCING FEWER LAYOFFS



Source: Bloomberg, Challenger, Gray & Christmas. Monthly data from 31 August 2014 to 31 July 2024.

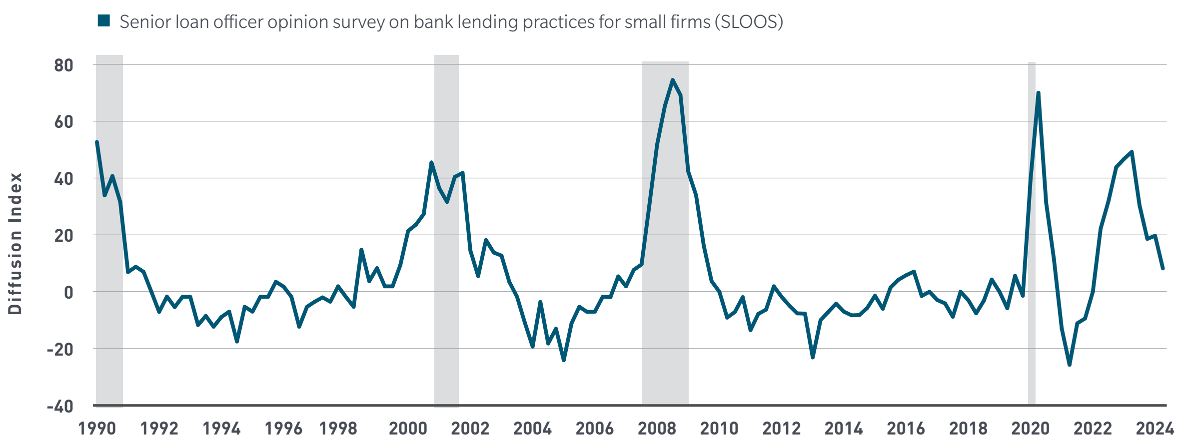
Layoffs are down for a fourth straight month

MFS PERSPECTIVE

- After years of over hiring, the technology sector has cut the most jobs, though year-to-date cuts are less than half the pace of a year ago.
- The top reason cited for layoffs was "cost-cutting," followed by "economic conditions."
- Interestingly, technology advances (including AI) were not mentioned in any announcements.

Lending conditions

LENDING STANDARDS RECEDING FROM RECESSIONARY LEVELS



Source: Bloomberg, Fed. SLOOS = Senior Loan Officer Opinion Survey. Quarterly data from 30 April 1990 to 31 July 2024. Shaded areas = US recessions.

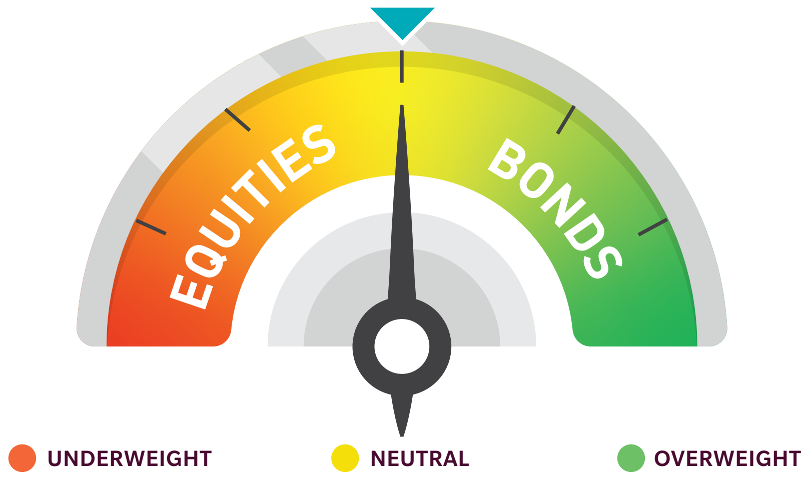
The SLOOS now shows only a moderate tightening bias

MFS PERSPECTIVE

- Fears of a credit crunch have virtually disappeared following a significant reduction in the tightening bias in the most recent Senior Loan Officer Opinion Survey (SLOOS).
- With the Fed getting ready to cut interest rates, lending conditions are about to become even more supportive.

Asset Allocation

Relative to investor's strategic asset allocation



We are moving from a slight overweight in fixed income to a neutral position as a soft landing becomes our base case and earnings momentum remains strong.

MFS PERSPECTIVE

1 As the Fed signals that the time for rate cuts has arrived, a solid jobs market and a strong consumer strengthens the case for a soft landing. In this scenario, stocks and bonds could both do well. A broad, global rate-cutting cycle is underway.

2 Earnings growth momentum remains strong. While valuations look stretched in pockets of US equities, earnings have been able to support higher multiples. We favor large value, which offers an attractive downside capture, valuation and dividend profile.

3 Duration remains attractive as a Fed easing cycle approaches. Assuming a soft landing, credit offers high all-in yields and low default risks. Spreads remain tight, so carry and lower rates are more likely to contribute to return than spread compression.

4 The equal-weighted S&P 500 is trading at a significant discount to the cap-weighted index, presenting attractive opportunities for active investors. International equities remain undervalued relative to both the cap-weighted S&P 500 and history.

Approach and methodology: The *Market Pulse* provides an outlook over a 12 month investment horizon for major asset classes as well as considerations of the prevailing market conditions. Views are driven by both quantitative and qualitative inputs including, but are not limited to, macro-economic data, valuations, fundamentals and technical variables.

The views expressed herein are those of the MFS Investment Solutions Group within the MFS distribution unit and may differ from those of MFS portfolio managers and research analysts. These views are subject to change at any time and should not be construed as MFS' investment advice, as securities recommendations, as portfolio positioning, or as an indication of trading intent on behalf of MFS.

US Equity

- Equity market volatility spiked in early August but appears to have been more of a technical position unwinding rather than a reflection of an underlying fundamental issue.
- The US index remains highly concentrated, with a handful of mega-cap stocks continuing to drive performance. Approximately 37% of the S&P 500's market cap is encapsulated by just 10 stocks, up from 19% a decade ago.
- There has been some market rotation away from the Mag 7 and into other market segments. Consumers staples, a recent laggard, was a top three performing sector over the past month.

MFS CONSIDERATIONS

LARGE CAP	SMALL/MID CAP	GROWTH	VALUE
▪ Earnings estimates remain strong, with projected growth of 11% this year and 14% next year. ▪ They have been able to defend their higher margins while lower leverage levels make them more defensive should the economy slow more than expected. However, pockets of overvaluation persist and early August brought selling to those parts of the market.	▪ Small caps have benefited from a sharp rotation due to expectations of a soft landing. ▪ While valuations look reasonable, headwinds remain in higher rates and the potential for a slowing economy. ▪ A further strengthening of the business cycle and evidence of an earnings recovery is needed to support a sustained positive view on small caps.	▪ Concentration (43% of the index in five stocks) and the AI theme continue to drive Russell 1000® Growth Index stocks. ▪ Momentum reversed in July and August after six months of driving performance in growth stocks. ▪ With high expectations reflected in multiples, investors may want to be increasingly discerning as earnings misses are likely to be punished.	▪ A recent rotation has resulted in strong performance in more value-oriented sectors such as utilities and consumer staples while expectations for falling rates have supported value more broadly. ▪ A soft-landing scenario would be supportive as rates ease but growth remains intact.

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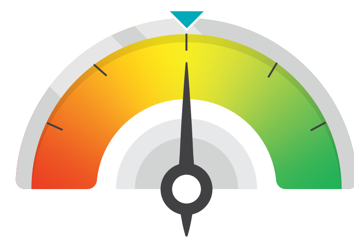
International Equity

DEVELOPED INTERNATIONAL EQUITY

- Volatility in Japan surged in early August as investors abruptly adjusted to a new monetary regime. Japanese equities remain supported by ongoing structural reforms, accommodative BOJ policy, a weak yen and rising real wages.
- European equities remain solid with the EU GRANOLAS index, up 14% year to date, leading the charge.

EMERGING MARKET EQUITY



- Volatility spilled over from the Japanese equity selloff, but regional equities have recovered nearly as quickly. China's economy continues to struggle under the weight of a deflating property sector and a sluggish consumer. China equities are just slightly above where they started the year.
- Indian equities continue to be one of the strongest performing markets year to date.

MFS CONSIDERATIONS

- International equities continue to trade at deep discounts to the US on a valuation basis.
- Europe's slow but steady economic recovery could be more supportive of European equities going forward.
- Softer inflation readings and expectations of a Fed easing cycle has led to a weakening of the US dollar, which could be a tailwind for international equities.
- China is engaging in stimulus measures to spark consumption by issuing debt to fund car, bicycle and appliance trade-ins. A step in the right direction, it may be too small to meaningfully impact the economy.
- Geopolitical concerns will be center stage ahead of November's US elections.

UNDERWEIGHT NEUTRAL OVERWEIGHT

Fixed Income

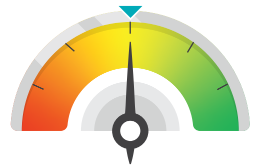
DURATION

- The soft landing scenario along with forthcoming rate cuts are supportive of long duration over a 12-month horizon.
- In the near term, there is a risk that market pricing may overstate the magnitude of future easing.

MUNICIPALS

- Fundamentals, including state finances, remain robust and may help manage risk in the event of a growth shock.
- An expected decline in cash rates may be supportive of asset class inflows.

SECURITIZED (MBS)



- The outlook for agency MBS remains broadly positive in view of strong fundamentals.
- An anticipated decline in rate volatility is likely to be supportive in the period ahead, but the valuation backdrop is less compelling relative to its peers.

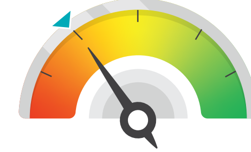
US INV-GRADE CORP

- The macro remains positive, but fundamentals are no longer showing strength.
- While total yields remain attractive, support from potential rate cuts is needed for above-average future returns, especially given stretched spread valuation.

US HIGH YIELD

- Fundamentals remain robust, helped by historically low levels of leverage and strong earnings.
- Other positives include low projected default rates, attractive breakeven yield valuation and a supportive macro outlook.

EMERGING MARKET DEBT



- Fundamentals remain broadly adequate, especially the growth outlook.
- Although uncertainty over the dollar's direction has risen, a potential weakening could act as a catalyst.

MFS CONSIDERATIONS

Duration

- The yield curve is likely to steepen in time, which will help support the relative attractiveness of the long end.

Municipals

- 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.

Securitized (MBS)

- Agency MBS offer diversification and defensive benefits as well as attractive spreads over Treasuries.

US Inv-Grade Corp

- We have turned more cautious in the near term, mainly reflecting a more challenging spread valuation picture.

US High Yield

- The risk/reward is interesting given the historically high level of break-even yield.
- While spread valuation looks rich, we don't foresee a catalyst for a major spread correction, but security selection remains key.

Emerging Market Debt

- While total yield valuation remains compelling, higher-rated country spreads are tight and EM remains exposed to global risks, including geopolitics.
- Given the challenging valuation backdrop, sovereign credit selection is paramount.

UNDERWEIGHT · NEUTRAL · OVERWEIGHT

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