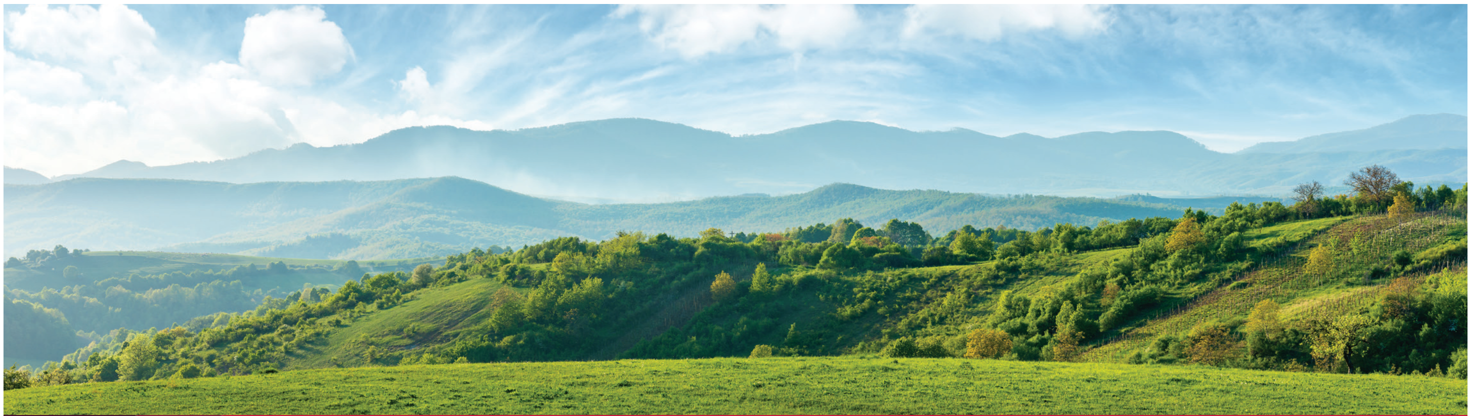
Spring 2024

MFS® Commentary



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Market Insight

Six Key Themes for 2024

As we enter 2024, there are six key themes that will likely influence the macroeconomic and capital markets environment.

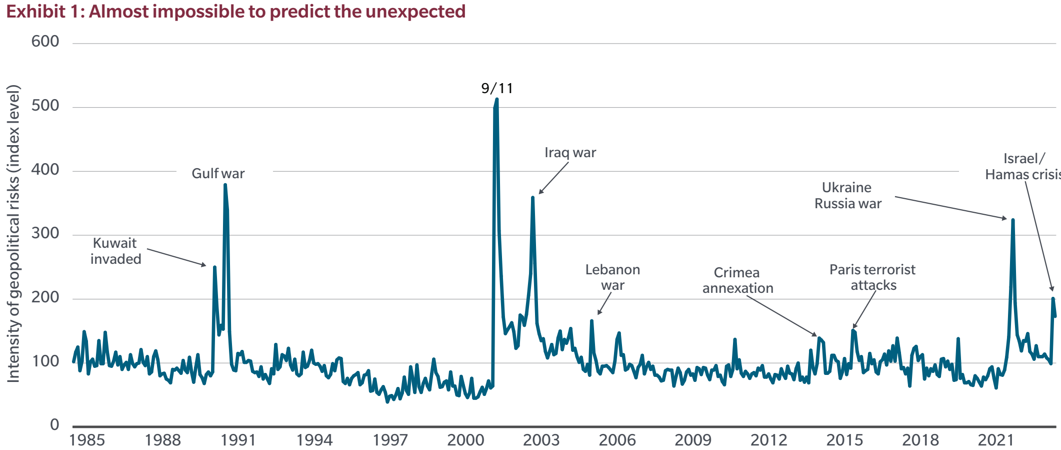
Reglobalization, not deglobalization

Within the last few years, Britain's exit from the European Union, US tariffs on certain Chinese imports and the pandemic catalyzed major shifts in trade. Will these events lead to a deglobalized world? We don't believe so. The benefits of global trade are too great. We see a trend toward reglobalization: a shift to a new mix of reshoring, automation, friend-shoring and supply chain redundancies, supported by government policy incentives.

Geopolitical risks become increasingly difficult to navigate

The geopolitical backdrop has become more challenging. It seems unlikely that geopolitical risks will fade anytime soon. Geopolitical risks are highly unpredictable and virtually impossible to accurately predict. We believe trying to position portfolios with the sole objective of protecting against geopolitical risks is difficult. Investors should consider sticking to their long-term plan.

Exhibit 1: Almost impossible to predict the unexpected



Source: Geopolitical Risk (GPR) Index (matteoiacoviello.com). 28 Feb 1985 through 30 Nov 2023. Monthly data.

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Divergence of the magnificent seven

For the last few years, a handful of stocks — Alphabet, Amazon, Apple, Meta, Microsoft, NVIDIA and Tesla — have dominated market performance. Mainstream media is fond of grouping them together, but viewing them as a collective may not be a good idea. We believe substantial divergences are likely going forward, and investors should focus on the individual merits of each. While many have been battle tested over decades, possess strong balance sheets and strong future prospects, others have not and do not.

Fiscal deficits: Higher for longer

At over 6% of GDP, the US deficit is abnormally large. The long-term average since 1969 for nonrecession years is 3.5% of GDP. Unfortunately, it seems that higher deficits are here to stay. For now, the risk to markets from fiscal deficits appears limited. However, investors are growing concerned. We don't believe that fiscal policy represents a major market risk, at least in the near term. However, lack of fiscal discipline could constitute a major risk over the medium term.

Selectivity matters: US high yield

The US high yield bond market is showing obvious signs of cyclical stress. Revenue growth and cash flow have been deteriorating since 2021. US bankruptcy filings are rising. However, we believe the overall credit quality of the high yield market has increased dramatically. But rather than focus on the market, we think it's important to focus on individual companies and be selective regarding companies in challenged industries such as commercial real estate, wireline telecom and retail.

Artificial Intelligence

The term AI conjures up visions of unlimited opportunity as well as damaging repercussions. As long-term investors, fully understanding both the immediate and the long-term implications of AI is critical. We believe that determining the long-term winners and having the conviction to hold them through a period of technological disruption will require deep, fundamental research, intellectual curiosity and discipline. Because when it comes to the future, there are still more questions than answers surrounding AI.

Retirement Basics

Making the Most of Medicare Part Three: When to Apply

In our final installment of our Medicare series, we'll explore some considerations of when to apply for Medicare. While there are five different times you can select and enroll in parts of Medicare (the initial enrollment period (IEP), the special enrollment period (SEP), the general enrollment period, the open enrollment period and the annual election period), we will focus on the IEP and SEP.

Initial enrollment period: Medicare Part A and (maybe) B

Are you or your spouse still working past age 65? If the answer is a no, you'll be considering the IEP for Medicare, a seven-month window that starts the three months before the month you were born, includes the month you were born and the following three months. If you enroll during the first three months, your Medicare coverage will start on the first day of the month you were born. If you apply after the initial three-month window, it will start the first day of the following month. If you are already on Social Security, you will be automatically enrolled in Medicare when you turn 65.

If you answered yes, or your spouse is still working with group insurance, you might consider holding off filing for Part B. If you work for a company with 20 or more employees, you can choose to keep your workplace insurance if it's considered creditable coverage (coverage that is as good or better than Medicare).

If your company has 19 or less employees, you'll need to sign up for Medicare Parts A and B to avoid any penalties. Penalties add a 10% increase for each 12-month period you should have been on Part B on top of your regular premium for the rest of your life. If your health plan has 19 or fewer people, Medicare is considered your primary insurer and your group health is your secondary. If you visit a doctor, your health insurance would not pay the initial 80%. You'd have to pay for any services you've received out of pocket.

If you are on COBRA, or your company offered you retiree health benefits, these don't count as acceptable coverage. In these cases, some choose to file for Part A during the IEP, even if they are still on their company's insurance, and delay Part B. But if you or your company are contributing to a health savings account(HSA) or planning to contribute to one during this time, you may want to hold off from enrolling in Part A because there can be tax consequences for continuing those contributions.

If you're considering a Medigap/Supplement plan, in many states you will need to also enroll in those plans during your first six months of Medicare enrollment. The reason for this is that for many states during this period, there is a guaranteed right to issue. Should you choose a plan outside of that period, you may have to undergo medical underwriting and could be denied issuance, or the premiums may increase. Please check with your state's individual rules.

Special enrollment period: Medicare Part B and (maybe) A

After the IEP, there are certain situations when you can sign up for Part B and Part A without penalties. One of the most common is you retire or lose your coverage after age 65. The SEP starts the first month after your IEP ends. The SEP ends eight months after your group health plan coverage or employment ends, whichever happens first. Medicare coverage generally begins the first day of the month after you sign up. In some situations, you can choose to have your coverage start on the first of any of the three following months.

If your IEP and SEP overlap, you cannot use the SEP rules. You must utilize the IEP window. If you have an HSA and are enrolling in Part A as part of an SEP, Medicare will back date your Part A six months from the date of application, not from the date you officially are enrolled. To avoid HSA penalties, you need to stop contributing six months before your application. If you're considering a Medigap/Supplement plan, during this SEP is when you'd normally purchase a plan. Lastly, when you enroll, you will need to provide proof that you had creditable coverage. If you do not have it, you can reach out to the insurance carrier that your group coverage was through.

Given the complexity of Medicare, consider working with your financial professional and Medicare insurance specialist to understand the costs and determine the best approach for you. Also, you may want to confirm any decision with a Social Security (1-800-772-1213) or Medicare (1-800-MEDICARE) representative.

This material should be used as helpful hints only. Each person's situation is different. Medicare and any other insurance coverage you choose should correspond to your financial needs and goals. MFS does not provide tax, legal, accounting, Social Security or Medicare advice. Clients of MFS should obtain their own independent tax and legal advice based on their particular circumstances.

Source: Medicare.gov.

Life Events

Eleven Options for Summer Childcare

Summer vacation is cherished by school kids, but it can be a challenge for parents. When it comes to your kids, one size does not fit all. Below we share some tried-and-true ideas as well as some affordable and out-of-the-box ones.

Hire a summer nanny: Nannies are one of the easiest options for parents as they will typically come to your home. You may find a college student or teacher looking for seasonal work. Summer's also a good time to hire a nanny who will care for your child all year. Some may also be open to participating in a nanny camp, in which they can join forces with other nannies to plan regular activities for the kids throughout the summer. The key to finding a nanny is to start looking now. One thing to note, the cost for a nanny can be high.

Hire a summer sitter: If your schedule is flexible or your summer care needs are less frequent, you may want to hire a part-time babysitter (or two) to fill in on days you're in office or need childcare at home. Babysitters often work year-round, and there are also seasonal sitters who are often students and teachers. Again, look early and think about lining up more than one sitter.

Consider a nanny share: Think about sharing a nanny with another family. You can rotate between homes depending on schedules. In general, sharing a nanny costs about two-thirds of having your own. Check out Care.com's "Complete Guide to Nanny Shares" for more information on getting started and making it work.

Enroll in daycare: A local daycare center offers reliable full-time care and often puts your kids in a learning environment with age-appropriate, fun and social activities. Start looking now. Priority often goes to returning families, so putting your child on multiple waitlists can help.

Find or create a summer childcare co-op: This can be a cost effective option for a parent who has a part-time job or flexible schedule. Friends and family take turns watching the kids, so that each person gets the coverage they need, free of charge. The number of hours you can commit to providing care may put a cap on how much childcare you can count on. The success of this model relies on regular, clear communication between co-op members.

Sign up for summer camp: Summer camps are a classic option that can last from a few weeks to the entire summer. Most summer camp programs provide a broad range of activities to meet diverse interests. Costs can vary from pricey sleep away camps to more affordable day camps hosted by your local YMCA or your town's parks and recreation department. Many camps offer early bird discounts.

"Stack" online classes: Consider signing up older kids that are comfortable with computers for back-to-back online classes to fill blocks of time. While stacking classes won't work for the entire summer, it's a viable option to fill gaps, especially if you're working from home. Let your kids pick or have input into the class. That way they're more likely to stay engaged in the class and stay put. Depending on the class and number of classes, prices can vary widely.

Think about an au pair: Au pairs generally come from a foreign country. They stay with families for an extended period. In exchange for lodging and a small allowance, they help care for kids and do light housework. Most families find au pairs through an agency that matches families with au pairs, sponsors visas, covers training and offers au pair accident and sickness insurance, among other things. Prices vary. For reference, the Au Pair in America agency requires an annual program fee of $9,550, a match fee of $475, and a minimum weekly stipend for au pairs of $195.75. After the initial fees, a weekly stipend of $200 may not seem like much, but there are other costs, including food, transportation and possibly auto insurance.

Work in a play-friendly environment: Some parents, especially those who work remotely, can work using Wi-Fi or a hot spot while children play at a playground or community center. Go prepared: bring snacks, toys, sports equipment, books or even art supplies. While this may not be a long-term solution, it can work in a pinch.

Consider a hotel or gym: There are some hotels that offer memberships to their pool and fitness centers. Some even offer onsite sitters or kid clubs. In some cases, you may have to pay for a room, but you can split it with another working parent to cut costs. Similarly, many gyms have pools and summer activities geared towards kids.

Build a hybrid plan: Combining various care options may work best with your budget and schedule. You could take part in a co-op a few mornings each week, signing up for two or three camps and filling in the blanks with a favorite babysitter. Or you might combine a half-day camp with a half-day nanny share. Coordinating multiple care options requires advanced planning. Figure out what's most important to you and build your summer care plan from there.

Source: Care.com, "11 summer child care options for any schedule and every budget," April 21, 2023.

IRAS: Don't forget to take your required IRA distribution for 2024

If you were born in 1951 or before, you must take a required minimum distribution (RMD) from your IRA for 2024. IRA owners who reached age 73 in 2023 and elected to defer their first payment had until April 1,2024 to take their first RMD. IRA owners who will reach age 73 in 2024 must take an RMD for 2024, but it may be deferred until April 1, 2025. If you have other non-Roth IRAs held outside of MFS, your RMD each year is based on the total value of all IRAs as of the previous December 31 divided by a life expectancy factor. The total amount of your RMD may be taken from one or more of your IRAs.

Each year after the year in which you turn age 73, your RMD must be made no later than December 31. If you do not take your RMD by the required date, you may be subject to a 25% excise tax on the amount not distributed. This tax is further reduced to 10% if you correct the shortfall during a two-year correction window. MFS is required to report to the IRS all IRA owners who must take an RMD during the calendar year.

To have us calculate the 2024 RMD from your MFS IRA(s), or to request a distribution, please call us at 1-800-637-1255 any business day.

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