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Strategist’s Corner - July 2024

Investors Are Seeking the Right Answers to the Wrong Questions

In late April, we saw how the then-recent inflation readings were higher than market expectations, which was not a surprise to those who buy groceries or pay utility bills. A similar pattern has played out recently, but this time in the other direction. Inflation has been lower than expected. As a result, talk of US Federal Reserve rate cuts has been revived.

We’re not dismissing the growing probability of a rate cut in September or the months after. But we think investors may be asking the wrong questions. Are “When will the first rate cut be?” and “How many times will the Fed cut in 2024?” the right questions? Do the answers really matter? In 2028, when you’re digesting the five-year performance of a portfolio, will the timing of that first rate cut be a factor?

Better questions to consider

Perhaps a more relevant question could be why might the central bank need to loosen monetary policy? More importantly, if prices are falling, whose revenue is being negatively impacted? Are their costs falling too? What will this mean for corporate profits? Is this reflected in stock prices? So, while the market has moved higher, it’s ignoring what company fundamentals may be telling us, and that’s what matters most to asset values.

Look at the interest rate cutting cycle that followed the dot-com bust in the chart below. In early 2001, federal funds peaked at 6%. Surprised by a sharp slowdown, the Fed cut rates aggressively over the next 18 months to 1%. While the equity market troughed before the Fed’s penultimate cut, as profits had bottomed and were poised to improve, the S&P 500 Index fell almost 40%.

Rate cuts didn’t help stocks after the dot-com bubble burst



Source: Bloomberg. Daily data from 2 January 2001 to 30 June 2003.

However, valuations aren’t as elevated today as they were then, and we’re not suggesting we’re facing a drawdown of that magnitude. We’re merely pointing out that central bank interest rate cuts are not a near-term panacea for disappointing operating results. So while valuations are not at 1990s extremes, analyst expectations are for high, single-digit profit growth. Anything that comes in below that will prove disappointing to investors who have alternatives beyond the equity market.

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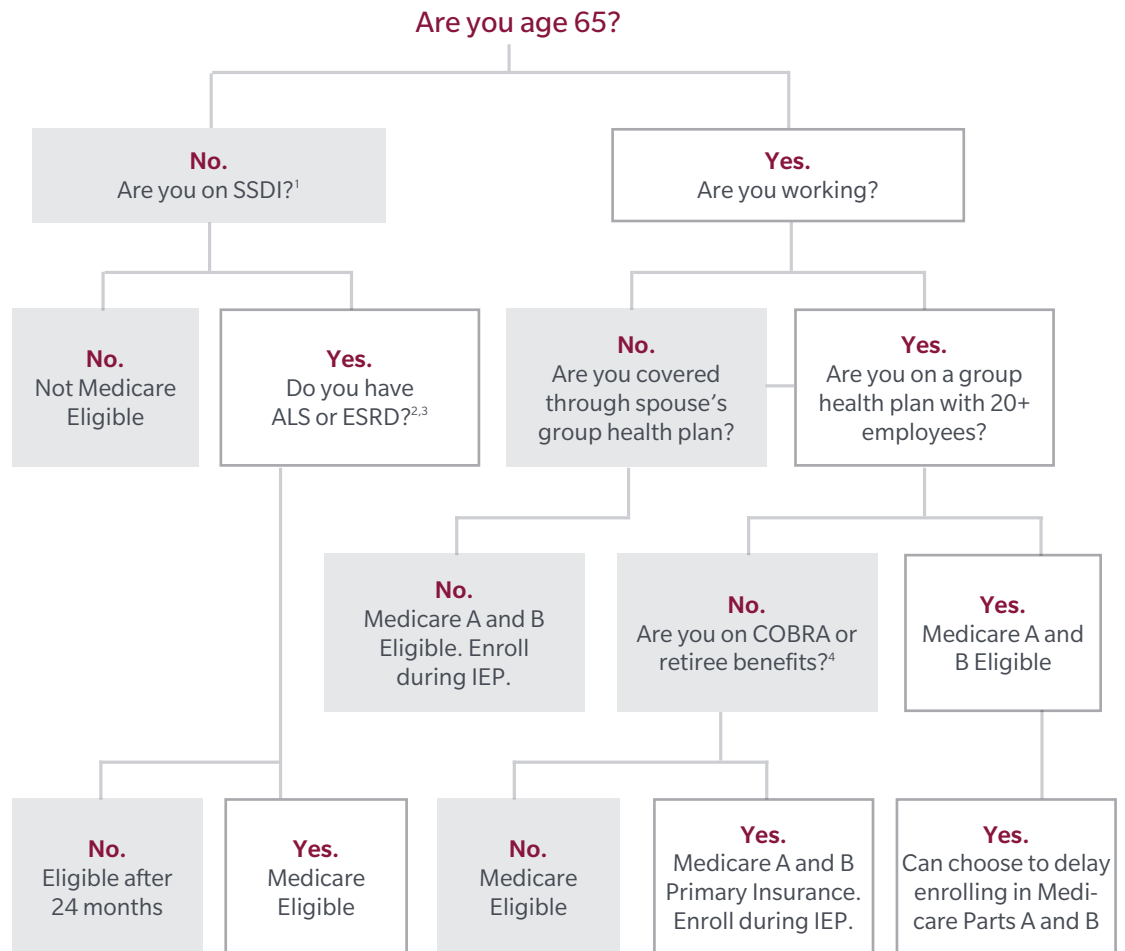
What matters

Ever since 2022, inflation and central bank policy has been top of mind. Recency bias can be dangerous. In our brains, the bias can sometimes dilute what is material, which, in the case of investing, are fundamentals and future cash flows. We think the right answers to the right questions rhymes with terminal value. What does the company do? How are they managing rising labor costs against falling prices for their goods? We believe we're careening toward the point where fundamentals drive valuations rather than maneuvers by policymakers. Central banks can't fix businesses that are broken. ▲

Retirement Basics

The Whats and Whens of Medicare Eligibility and Enrollment

As you plan for your retirement, understanding Medicare coverage is important. If you are nearing or have reached age 65, there are a few things to consider before enrolling. The chart below can help you determine when you are eligible.

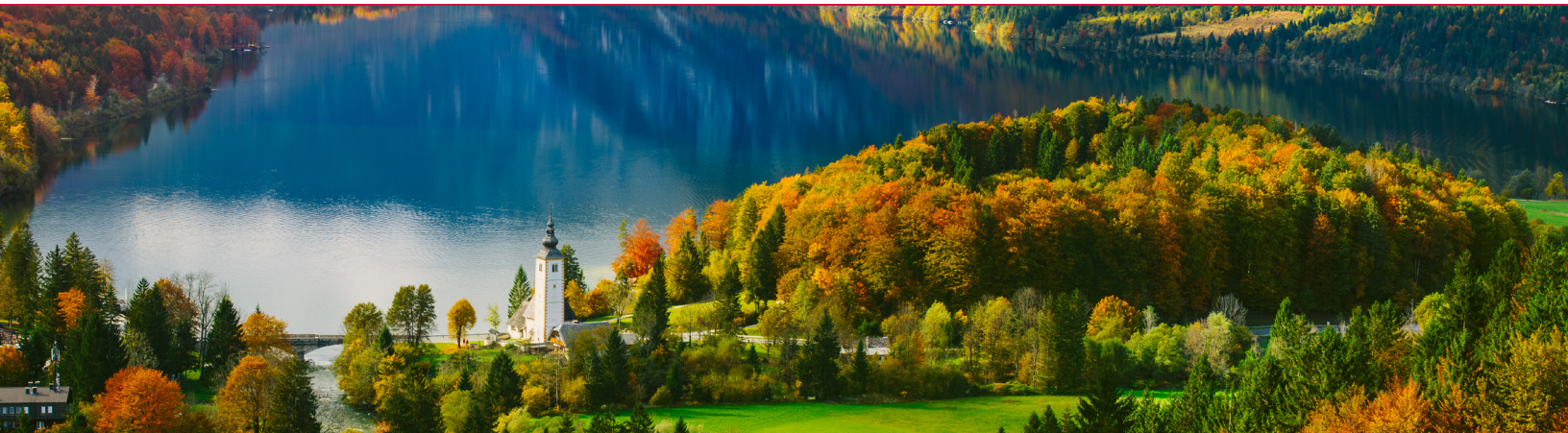


¹SSDI stands for Social Security Disability Insurance.

²ALS stands for Amyotrophic Lateral Sclerosis or Lou Gehrig's Disease.

³ESRD stands for End Stage Renal Disease (kidney disease).

⁴COBRA stands for Consolidated Omnibus Budget Reconciliation Act.



Next steps

Once you determine if you are eligible, consider meeting with your financial advisor or investment professional and your Medicare specialist, or your state's SHIP (State Health Insurance Assistance Program) to review each of the enrollment periods and options available in your area. For more information and answers to your questions about Medicare, visit [medicare.gov](https://www.medicare.gov). ▲

Source: Medicare.gov.

Life Events

Teaching Your Children and Grandchildren About Philanthropy

How can you encourage children and grandchildren to be more empathetic, caring and supportive? A great way is to get them involved in giving. It can also help them build personal values, feel more connected to their community and see how their actions can impact others in positive ways. Philanthropy can be a family affair, creating quality time together.

Here are some ways to get children involved and show them the importance of giving

Lead by example. Children and grandchildren learn through observation. It's important that they witness your generosity and passion for helping others.

Include them in discussions about which charitable organization your family will support. Talk about ways to give, such as donating money, toys, household items or clothing and volunteering. Involving them in discussions can help them understand the impact of giving. Remember to keep the conversation age-appropriate.

Volunteer as a family. Even young children can help with activities such as park cleanups or sorting cans for a food drive. It can be fun and rewarding to make a difference together.

Introduce giving into special occasions such as birthdays and holidays. Encourage children or grandchildren to donate some of their gift money to charity. It can help shift the focus from material possessions to the joy of helping others.

Incorporate giving when teaching them about money. Suggest dividing their allowance into three categories: spending, saving and giving to charity. Together, you can choose where the donation goes.

These are a few suggestions that can help the next generation embrace compassion and charitable efforts. Small acts of kindness can help make the world a better place. ▲

Important Information

New Overnight Mailing Address

Effective November 1, 2024, the overnight mail address as reflected in our Summary Prospectus under “Purchase and Sale of Fund Shares” will be changing. The new address will be updated on all of our forms, literature and regulatory documents.

Please continue using our current overnight address until the effective date of November 1, 2024.

Overnight Address

MFS Service Center
801 Pennsylvania Ave, Suite 219341
Kansas City, MO 64105-1307

After November 1, mail sent to the above address will be forwarded to the new address for a short time. When sending forms to MFS, please refer to the bottom of the last page of the form for our current address. This change will not impact mail sent to our PO Box.

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mfs.com

MFS® TALK
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24 hours a day

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(Shareholders)
1-800-225-2606

(Financial advisors)
1-800-343-2829

Retirement plan services
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