

# MFS Digest

May 2024

## Key Market Themes and Investment Insights

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**Global growth is looking up** US growth remains strong, but Europe and pockets of emerging markets are showing recovery signs too. That should support the outlook for risky assets. [Market Pulse](#)

**A revolution in pharma** The broad health benefits of GLP-1 drugs are creating revolutionary change. These drugs could reach a much wider population than just diabetics, and investors have taken notice. The potential for a healthier population that consumes less food and weighs less could have broad implications for a number of industries. [GLP-1s Weigh on the Market](#)

**The equity show goes on** US equity gains continue to be driven by multiple expansion while those in Europe have been more earnings-influenced. European equities are trading at attractive valuations, and several catalysts could spark a recovery: growing real wages, robust labor markets, lower natural gas prices and the prospect of the European Central Bank beating the US Federal Reserve to the punch on rate cuts. These factors should help support interest-rate-sensitive and cyclical parts of European markets.

### [Monthly Equity Market Topics](#)

**A shifting landscape** From the end of the global financial crisis through the onset of the pandemic we saw falling corporate operating costs amid peak globalization. The postpandemic environment is different, making for a potentially more challenging investment landscape. In the new environment, it's increasingly important to know what you own. [Strategist's Corner: A Different Paradigm](#)

**Historically, low vol tends to do well when rates decline** Declining interest rates, particularly those that coincide with successive rate cuts, are typical of late economic cycles, when equity markets are apt to behave more defensively, favoring low volatility. [Declining Interest Rates Have Historically Signaled Positive Relative Performance for Global Low Volatility](#)

## Economic outlook

While the US economy has led the way, the recovery is broadening globally. The macro landscape remains favorable, with the case for a global soft landing strengthening and the odds of a no-landing scenario in the US increasing. Inflation continues to decelerate globally, though the path in the US has gotten a bit bumpy. Policy easing is expected in the second half of the year in the US, with European central banks potentially moving earlier. As a result of the resilient growth backdrop, markets reduced their 2024 Fed rate cut expectations from nearly seven in January to less than two in mid-April. Multiple rounds of targeted stimulus in China have helped improve market sentiment. Japan expects to see significant improvement in real wages for the first time in decades after unexpectedly large annual wage settlements this spring.



## Fixed income

**Rates** Macro fundamentals, including the disinflation story and the prospects for future rate cuts, are supportive of long duration, especially after recent dovish signals from the Fed chair. The yield curve is likely to steepen in the period ahead, which will help support the relative attractiveness of the long end.

**Credit** The US macro backdrop remains supportive, but IG fundamentals continue to weaken somewhat, especially cash flows. While total yields remain fairly attractive, support from rate cuts is needed for future returns to be above average, especially given the spread valuation. HY remains resilient amid low levels of leverage and strong earnings. Low default rates, healthy breakeven yields and an improved macro backdrop are encouraging.

**Munis** Fundamentals, including state finances, remain robust and may provide some protection in the event of a growth shock. The expected decline in cash rates may be supportive of inflows back into the asset class this year.

## Sustainability

**A sustainable approach in a complex landscape** In line with global decarbonization efforts, the race is on to find solutions that will help the world meet its decarbonization targets by driving the widespread adoption of energy from cleaner sources, distributed efficiently and consumed responsibly. [Sustainability in Action: Schneider Electric](#)

**Sustainability at MFS** This report provides a quarterly update of our sustainability and stewardship activity. We hope it helps you better understand our sustainability approach and how we aim to maximize long-term risk adjusted returns for you. [MFS Stewardship Report](#)



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