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### Strategist's Corner

## Bad Policy and Unintended Consequences

For capitalism to function, investors must be compensated for putting their money to work. At a minimum, interest rates need to be above 0%. Because without compensation, there would be little motivation for savings or investment. Furthermore, history shows that when policymakers suppress the cost of capital, investors are more likely to make bad financial decisions. While it can take years, the consequences of those decisions usually result in financial or economic turmoil. Over the past year, we've seen multiple episodes of financial stress in cryptocurrencies, special purpose acquisition companies (SPACs) and the failure of several regional banks in the United States.<sup>1</sup>

### Not a repeat of 2008

The current US banking crisis is different from the 2008 global financial crisis. In 2008, banks were liquid but insolvent due to years of making bad consumer loans. Today, they are solvent but illiquid due to deposit outflows. Years of subdued savings rates and anemic demand for consumer loans pushed banks into investing deposits into bonds. But as savers shifted out of deposits into higher-yielding money market funds, T-bills and the like, asset liability mismatches occurred, resulting in the stresses seen in recent weeks.

Small banks are significant providers of capital to individuals and small businesses that drive the bulk of economic activity. While some of that lending slack will be absorbed by larger banks (which don't face the same risks to deposits), the current investment climate makes deposit-funded banks less willing to lend. This is a disinflationary force that accelerates the pathway to a recession.

### The bigger picture

Since 2008, much of the wealth that was created did not result from economic growth. Instead, it was a by-product of declining capital costs. All-time-high global corporate profit margins (the portion of a company's revenues left after subtracting costs) were achieved in the late 2010s amid the weakest business cycle in over a century. While profit levels have been high, their quality has been poor. And as business cycles age, companies increasingly ask investors to "ignore" a rising number of impairments due to bad investments. We believe the quality of today's profits is poor and is consistent with the bad decisions spurred by capital cost suppression.

### Opportunity amid the great unwind

Inflation over the past 18 months has forced global central banks to unwind policies that have suppressed interest rates. While the normalization of interest rates has exposed some stress, in our view, there are more unintended and unwelcome consequences to come. We think this new environment should set the stage for a multi-year transition in leadership from passive portfolios to fundamentally oriented active strategies and create opportunities for value generation. ▲

<sup>1</sup>An SPAC is a company formed strictly to raise capital through an initial public offering for the purpose of acquiring or merging with an existing company. According to Forbes, of the 1,288 SPACs raised since 2020, 800 remain without a closed deal. Source: Forbes.com, "Whatever Happened to SPACs?" 12/20/22.

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## Investment Vehicle Comparison

# Mutual Funds and Separately Managed Accounts

Mutual funds and separately managed accounts (SMAs) have been in existence for decades. While both are managed by a professional asset manager, there are a number of differences between them. Understanding these differences can help you and your investment professional determine which one may be a better fit for your investing needs.

### Mutual fund or SMA: Which is right for you?

Differences	Mutual Fund	SMA
<b>Ownership</b>	Investors own shares of a pool of securities, commingled with others' assets	Investor owns individual securities
<b>Portfolio Holdings</b>	Based on stated objective; identical for all shareowners in the fund	Based on stated objective, but can be customized to a limited extent
<b>Portfolio Management</b>	Professionally managed; security selection active or passive; broad range of investment strategies	Professionally managed; security selection active or passive; in some cases, additional portfolio manager uses model
<b>Tax Basis</b>	May include embedded capital gains dating prior to when investor bought shares as well as other factors	Begins when investor first establishes an account
<b>Tax Management</b>	Under sole control of portfolio manager or part of fund objective	Potential for client and investment professional to manage taxation of gains/losses

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## Life Events

# Job Search Tips for Recent Grads

For many college graduates, summer is the start of the job hunt, and nowadays looking for a job can be a full-time endeavor. Fortunately, there are steps graduates can take to help find employment. Below are some strategies recommended by professional recruiters.

**Start with a strong resumé:** Resumés can be written in a number of formats, from chronological to skill-focused to industry-targeted. The format you use may depend on the job you are seeking. Some job seekers use more than one style of resumé. Many websites offer insightful tips on writing a professional resumé.

**Develop a LinkedIn profile:** Your profile should be a colorful addendum to your resumé, presenting aspirations as well as past employment. Include a professional photo and list your skills and desired employment. Connect with other professionals (coworkers, professors, advisors and family friends) to build your network. Consider leveraging the advanced search function to find professionals at companies where you hope to work and approach them for an informational interview.

**Work your network:** Reach out to your college alumni associations, attend networking events in your community, keep an eye out for local career fairs and consider joining a professional organization where many will share your interests, goals and passions — and may even offer to refer you to their employer or other contacts.

**Engage prospective employers:** Social media platforms, such as LinkedIn and Twitter, can help you build relationships with companies and get information on job openings. Search for industry groups and forums or follow targeted online chats. The information you gather can give you lots to talk about during an interview, from company policies to recent events and competitive trends — even the backgrounds of the interviewers you may be meeting.

**Volunteer or intern:** In some industries, hires work as interns before becoming paid employees. If you haven't found a paying job yet, consider volunteer opportunities to expand your network and build skills. They could lead to a full-time position.

**Get interview-ready:** Beyond the appropriate attire and good grooming, a professional presentation means a suitable online presence. Make sure your social media profiles portray you positively and button up your Facebook profile privacy settings. Delete social media accounts from high school and prepare answers for any questions that may come up in a Google search of your name.

**Be open to different experiences:** If you've been looking for a job for a while, consider broadening your search to include locations, industries and career choices beyond your ideal position. The more positions you apply for, the better your chances of landing a job. Your first job may not be your dream job, but it can be a stepping stone for better things. Do each task well, build relationships with your coworkers and impress your supervisors.

### Websites that can help your search

Government site aimed at recent graduates and students: [USAjobs.gov](https://www.usajobs.gov), US Department of Labor site aimed at helping young people decide which career to choose: [Myskillsmyfuture.org](https://myskillsmyfuture.org); articles on resumé writing and job search techniques: [Careeronestop.org](https://www.careeronestop.org) ▲

This material should be used as helpful hints only. Each person's situation is different.

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## Financial Basics

# It's Not Too Late to Save on Summer Travel

Summer 2023 marks the first largely restriction-free, post-COVID summer. Travel has rebounded and so have travel costs. The good news is that airfare is expected to peak at around \$350 for a domestic round-trip ticket this fall, according to Hayley Berg, the lead economist for booking platform Hopper. That's down from \$400 last summer, when jet fuel prices were higher and airline capacity was lower. Likewise, rental car rates should be down from pandemic highs.\* Unfortunately, higher demand and the impact of inflation means that hotel rooms may be more expensive this summer compared to last, according to data from STR, a global hospitality benchmarking firm.

### Tips for cheaper summer travel

**Fly midweek.** The online travel agency Expedia advises avoiding Saturday through Monday departures, which are the priciest. Wednesday departures tend to run 15% less for domestic flights and 10% less for international flights.

**Go where the dollar is strong.** The favorable exchange rate between the US dollar and many foreign currencies, including the euro, Canadian dollar and Mexican peso, makes stretching your budget abroad an attractive proposition this year.

**Stay longer.** Many short-term rentals offer discounts for weekly or monthly stays. On the rental platform Vrbo, use the filter "weekly discount" to find them.

**Rent a car away from the airport.** Non-airport rental car locations generally have lower operating costs, which they pass on to renters in the form of lower rates, according to Expedia.▲

\*Source: J.D. Power.

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