July/August 2025

Market Pulse

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

Market Insights Team

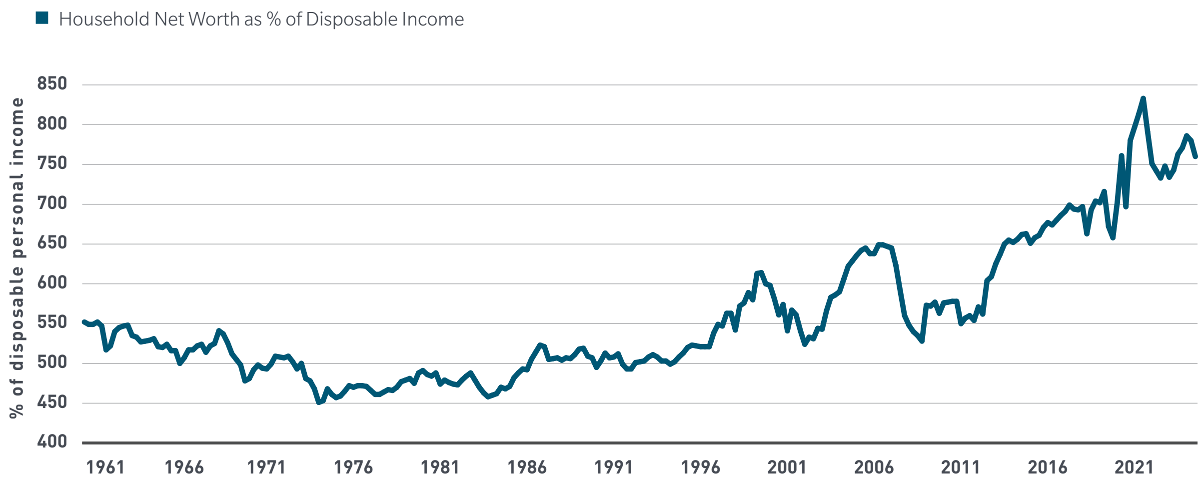
KEY TAKEAWAYS

- The passage of the One Big Beautiful Bill makes permanent the full expensing of certain capex and research and development costs in the first year. That could be a significant tailwind for US corporate profits.
- While non-US equities have delivered high single-digit returns year to date, the weakening US dollar has boosted local currency returns to one of the best starts of the year.
- Though there is still a fair amount of uncertainty in the air, we continue to see opportunity in US large cap, midcap and value equities. We're observant of solid fundamentals but note challenged valuations in US bond sectors.
- Shelter inflation lags market-based pricing by 12 to 18 months and shelter disinflation is expected to continue.

Economy & Markets

US Consumer

THE US CONSUMER REMAINS RESILIENT



Source: Bloomberg, Federal Reserve, Flow of funds. Quarterly data from 31 March 1961 to 31 March 2025.

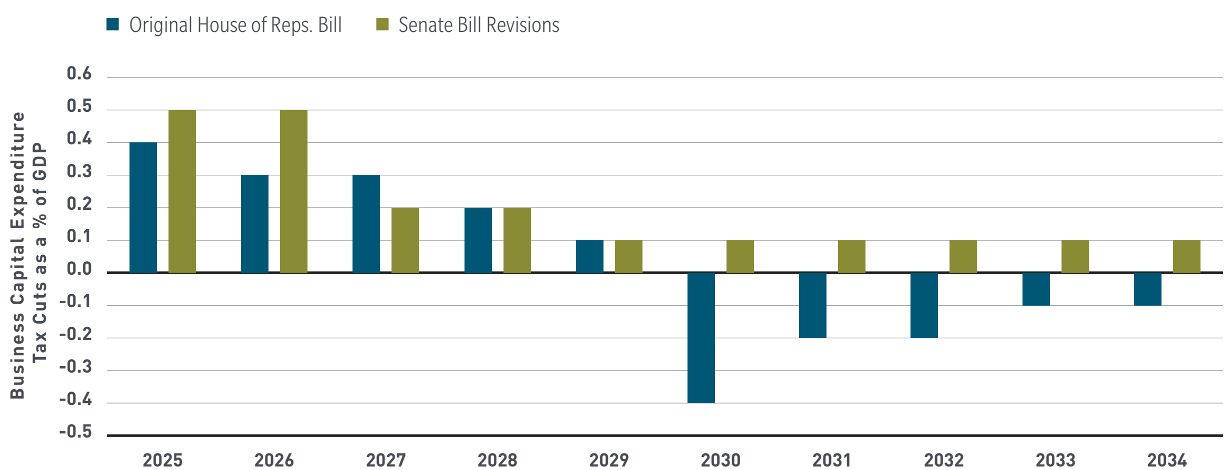
Solid spending helps alleviate recession concerns

MFS PERSPECTIVE

- A solid US consumer reflects the steady labor market, robust asset prices and growing disposable incomes.
- The US business cycle appears headed for a moderate slowdown, but we don't believe that it will be tipped into recession.

Corporate Profitability

BIG BEAUTIFUL BILL – ARE CAPEX IMPLICATIONS UNDERAPPRECIATED?



Source: Tax Foundation, Congressional Budget Office, MFS calculations. Capital expenditure provisions include R&D expensing, 100% bonus depreciation, certain structure bonus depreciation, and interest limitations swapping to EBITDA. Provisional costs or savings calculated on a conventional basis. GDP used is CBO forecasted GDP through 2034 as of January 2025.

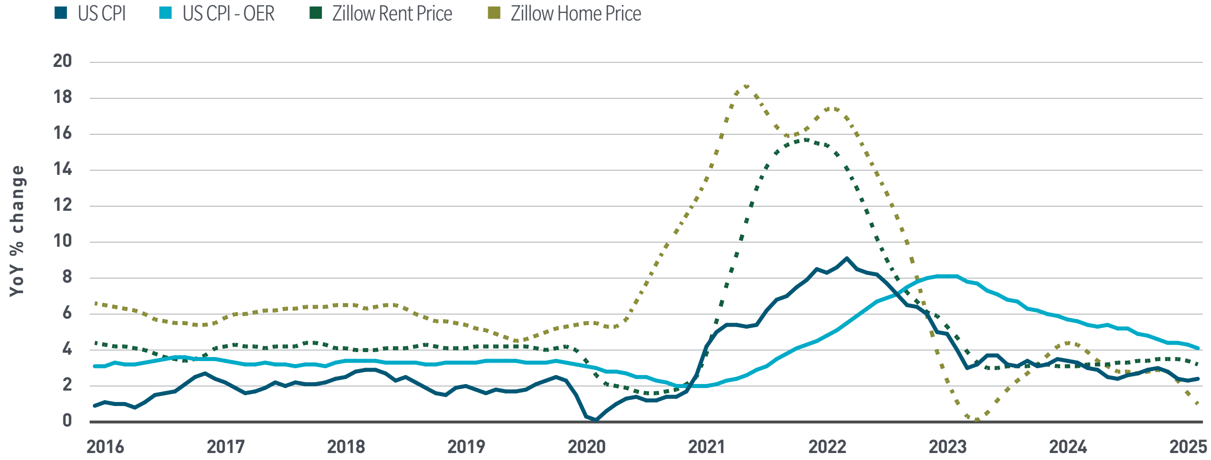
Senate revisions boost provisions for equipment and R&D expensing

- Allowing for 100% bonus depreciation of equipment and R&D supports increased investment in both these areas.
- Longer term, it is beneficial for margins and may help alleviate the impact of tariffs on corporate profits.

Economy & Markets

Housing & Inflation

SHELTER INFLATION CONTINUES TO DECLINE GRADUALLY



Source: Bloomberg, BLS, Zillow Research. Monthly data from 31 March 2016 to 31 May 2025. OER = Owners' equivalent rent.

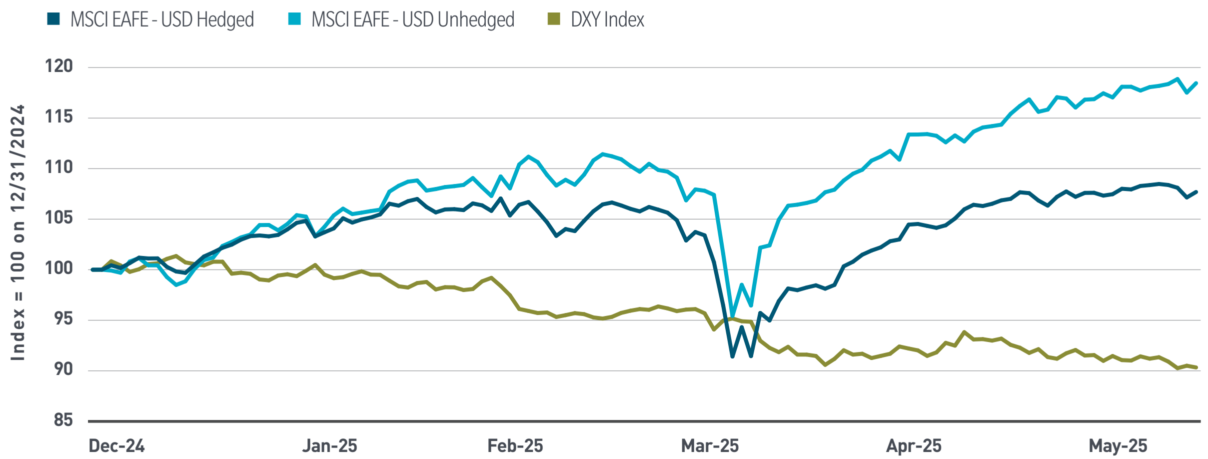
Data suggest continued declines in shelter costs

MFS PERSPECTIVE

- Shelter inflation, official known as OER, is traditionally one of the most lagged components of inflation.
- OER lagged the peak in CPI by 12 months and lagged market-based home and rental pricing by nearly 18 months.
- Weak market-based pricing has pushed OER down. With demand still shaky, we expect this disinflation to continue.

The USD and Non-US Equities

CURRENCY EXPOSURE CAN BE AN ALPHA SOURCE



Source: Bloomberg. Daily data from 31 December 2024 to 16 June 2025. MSCI EAFE returns are total returns (net).

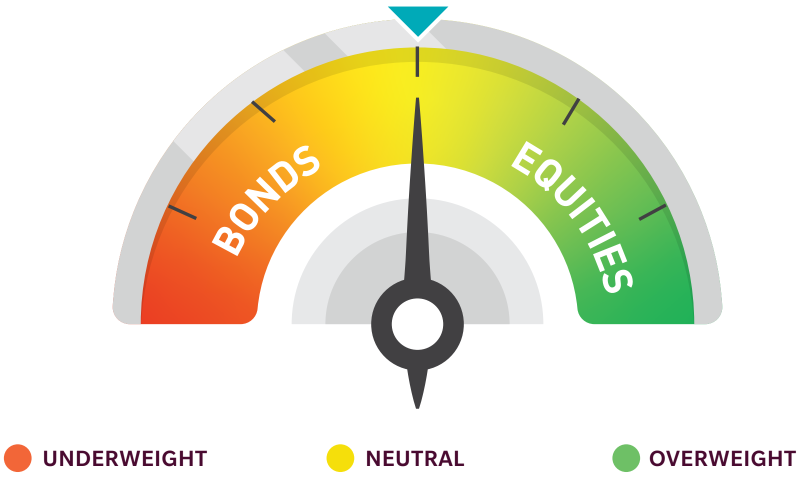
Non-US equities have gotten a boost from a weaker US dollar

MFS PERSPECTIVE

- Until recently, non-US equities had been out of fashion for years.
- Overseas shares have performed strongly this year, but their performance in local currencies has been even better.
- A falling US dollar has turbocharged gains for US investors who are willing to accept currency risks.

Asset Allocation

Relative to investor's strategic asset allocation



We are not through with geopolitical and US policy concerns, but both equities and bonds look attractive, albeit with significant valuation risk.

MFS PERSPECTIVE

1 We are waiting for more clarity around tariffs and fiscal policy in the US and their potential effects on earnings. Interestingly, the S&P 500 is trading at the same P/E multiple (23x) as in early 2022 before multiples crashed due to Fed tightening.

2 Equity sentiment in the US has been buoyed by the likelihood of a budget reconciliation bill being signed into law, talk of additional trade deals being close to the finish line and the potential for Fed easing in the second half of the year.

3 The FOMC is still in wait-and-see mode, with two rate cuts priced in for the remainder of the year. They will be poring over the latest employment, inflation and housing data, looking for clarity on tariff impacts before their late-July meeting.

4 Spreads are rich but could remain well behaved unless we see a slowdown. While it's likely we'll see a few Fed cuts and some curve steepening, rates shouldn't be the primary driver. We believe coupons will drive fixed income returns for the remainder of the year.

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 Strategy and Insights 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. No forecasts can be guaranteed.

US Equity

UNDERWEIGHT NEUTRAL OVERWEIGHT

- US equity markets are not pricing in tariff implications or elevated geopolitical tensions as the ninety-day negotiation window closes on July 9.
- Equity markets continue to rise despite declining earnings revisions for 2025, driving valuations higher.
- A weaker dollar will be supportive for US companies with offshore earnings.
- Reduced corporate taxes in the One Big Beautiful Bill may drive a revival in capex and R&D over the next few years.
- Q2 earnings season will be closely scrutinized for tariff impacts.
- We prefer large cap over small, and value over growth.

MFS CONSIDERATIONS

LARGE CAP	SMALL/MID CAP	GROWTH	VALUE
▪ A strong rebound in semiconductor stocks has powered the equity rally. ▪ Large-cap names continue to dominate and drive index performance. ▪ Valuations across multiple metrics remain near long-term highs while the market climbs a wall of worry. ▪ We remain cautious ahead of policy impacts on earnings.	▪ Elevated inflation and interest rates remain a headwind for SMID as earnings growth remains meager. ▪ Valuations are supportive and improving productivity and ongoing deregulation may drive earnings improvement. ▪ We favor midcaps over small caps given their lower financial leverage and stronger profit margins.	▪ Growth rebounded, led by technology and non-regulated utilities. ▪ Increasing dispersion within the Magnificent Seven improves the opportunities for active managers. ▪ The outlook for large-cap technology, whose valuations look extended, will drive the performance of growth stocks.	▪ Value's deep discount to growth provides a healthy valuation cushion and offers diversification from concentrated technology- driven indices. ▪ These stocks are well positioned to benefit from the proposed One Big Beautiful Bill tax changes for capex and R&D.

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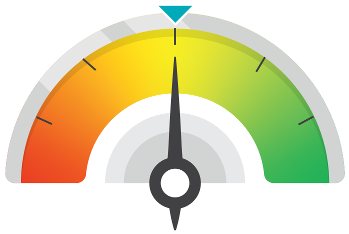
International Equity

DEVELOPED INTERNATIONAL EQUITY	EMERGING MARKET EQUITY

DEVELOPED INTERNATIONAL EQUITY

- Despite recent events, falling energy prices are a boost to European, UK and Japanese profit margins.
- US dollar weakness is expected to continue providing a tailwind for US holders of foreign shares.
- Trade uncertainty remains a source of potential volatility.

EMERGING MARKET EQUITY



- A weaker USD is generally positive for emerging markets, but this is tempered by trade uncertainty.
- The outlook for Latin America continues to recover on the back of greater political stability and improving fundamentals.
- Southeast Asia should continue to benefit from ongoing demand for tech hardware and semiconductors.

MFS CONSIDERATIONS

- Europe is coming off a very low base with falling rates and lower inflation. There is evidence of green shoots in the economic data, which, coupled with fiscal expansion, is structurally positive
- Despite the recent rally, momentum remains positive and European valuations are undemanding.
- Japan continues to benefit from ongoing structural improvements and positive earnings revisions.
- We remain positive on the outlook for both Europe and Japan

- Caution among China's consumers remains a concern and further stimulus may be needed to boost local consumption while manufacturing and industrial capacity utilization cools.
- Tariffs remain a worry as slowing global growth and trade is typically a drag on emerging markets.
- Real policy rates remain high and further easing would be supportive for earnings, particularly for Latam countries.

UNDERWEIGHT NEUTRAL OVERWEIGHT

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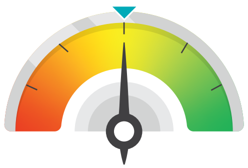
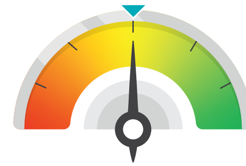
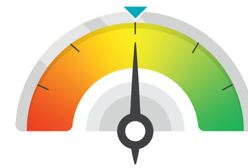
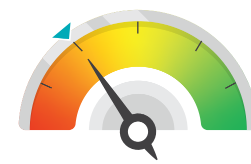
Fixed Income

DURATION	MUNICIPALS	SECURITIZED (MBS)	US INV-GRADE CORP	US HIGH YIELD	EMERGING MARKET DEBT
					
▪ The macro drivers of duration have been mixed with downside risks to growth counterbalanced by renewed inflation fears. ▪ While rate volatility has normalized from April's peak, policy uncertainty and US Treasury technicals appear to have worsened.	▪ Fundamentals, including state finances, remain adequate while the valuation backdrop looks favorable.	▪ The agency MBS outlook remains broadly positive, reflecting improved fundamentals and a sound technical backdrop, but higher rate volatility could act as a headwind. ▪ A combination of more compelling relative valuations, along with a return of institutional buyers to the market, could support MBS.	▪ The macro backdrop should remain supportive, despite the policy uncertainty. Spreads have tightened from April's wides and look stretched again, putting a premium on credit selection. ▪ We expect market volatility to remain high, but US IG can remain resilient as long as a recession is averted.	▪ Fundamentals remain solid, helped by a historically low level of leverage and strong earnings. ▪ However, in a potentially higher credit risk environment, driven by policy uncertainty, technicals are likely to be challenged while historically rich valuations cheapen.	▪ The geopolitical backdrop has worsened considerably, constituting a major headwind for EM. In addition, fundamentals have deteriorated somewhat. ▪ On the positive side, valuations remain adequate and technicals are supportive, with many investors seen as under-invested.
MFS CONSIDERATIONS					
▪ Caution towards duration is warranted in view of the challenging macro, policy and technical backdrop. ▪ The yield curve is likely to steepen further, which will help support the relative attractiveness of the long end.	▪ Given their low credit risk and favorable tax treatment, we think municipals could represent a great alternative to cash.	▪ Agency MBS offer diversification and defensive benefits as well as attractive spreads over Treasuries. With improving valuations and technicals, a favorable stance appears appropriate.	▪ We are neutral given that tight spreads are balanced by a supportive macro backdrop. ▪ Looking ahead, expected returns are likely to remain adequate, mainly driven by the attractive carry.	▪ We believe that the risk/reward for total returns is still favorable, but its relative value proposition has declined. ▪ Security selection remains critical. In a heightened credit risk environment, this asset class may not be for everyone.	▪ We have turned more cautious as EM is exposed to global risks, including the impact of tariffs, geopolitics and downside risks to global growth. ▪ There are still attractive opportunities within EM, but sovereign credit selection is paramount.

● UNDERWEIGHT ● NEUTRAL ● OVERWEIGHT

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