Q3 2019

Global Edition

Investment Solutions Group

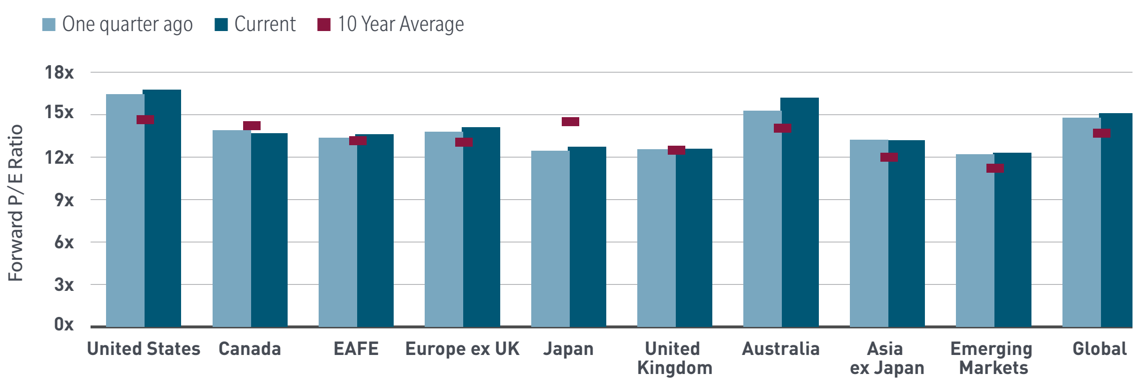
Capital Markets View

EQUITY SUMMARY

While recent corporate earnings growth has been slightly better than lowered expectations, analysts' estimates suggest another weak quarter lies ahead. The United States and China agreed to a truce over new tariffs and resumed negotiations, but tariff-related costs and uncertainties continue to weigh on business and consumer confidence. Some companies are finding it difficult to shift global supply chains since few countries have the skilled labor and production capacity to replace China. Global equity valuations remain reasonable at 16x earnings, with non-US equities trading at lower PE multiples than US equities and emerging market equities trading cheaper than developed market equities. The US Federal Reserve, European Central Bank and a number of other central banks have adopted more dovish stances, helping underpin equity markets. However, purchasing managers' indices, sensitive measures of economic activity, have slowed considerably on a global basis, suggesting that recent soft economic growth may not be transient, which could be a headwind for revenue growth.

For the full story see page 3

Forward Price to Earnings



Source: FactSet as of 30 June 2019. United States = S&P 500, Canada = MSCI Canada, United Kingdom = MSCI United Kingdom, Japan = MSCI Japan, Australia = MSCI Australia, Global = MSCI AC World, Europe ex UK = MSCI Europe ex-UK, EAFE = MSCI EAFE Asia ex Japan = MSCI Asia ex Japan, Emerging Markets = MSCI Emerging Markets.

	SALES GROWTH (YOY%)		NET PROFIT MARGIN (%)		DIVIDEND YIELD (%)	
	Current	10-Year Average	Current	10-Year Average	Current	10-Year Average
United States	6.4	5.0	12.0	8.9	2.0	1.9
Canada	7.6	7.0	11.8	9.9	3.1	2.4
EAFE	4.0	3.3	8.1	6.3	3.6	3.1
Europe ex UK	2.9	3.4	8.3	6.8	3.5	3.2
Japan	4.9	2.1	6.2	3.5	2.5	1.7
United Kingdom	6.6	4.9	8.5	8.2	4.8	3.7
Australia	-1.2	5.8	15.1	12.5	4.8	4.4
Asia ex Japan	7.5	10.1	9.7	10.4	2.7	2.7
Emerging Markets	8.1	10.8	9.8	10.3	2.9	2.7
Global	5.7	4.7	10.0	7.8	2.6	2.4

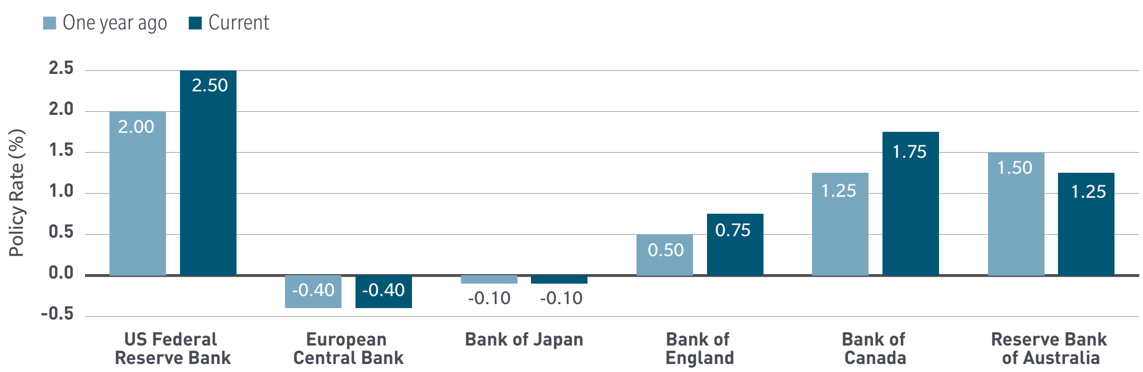
Source: FactSet as of 30 June 2019. Data shown are trailing (last twelve months). United States = S&P 500, Canada = MSCI Canada, United Kingdom = MSCI United Kingdom, Japan = MSCI Japan, Australia = MSCI Australia, Global = MSCI AC World, Europe ex UK = MSCI Europe ex-UK, EAFE = MSCI EAFE, Asia ex Japan = MSCI Asia ex Japan, Emerging Markets = MSCI Emerging Markets.

FIXED INCOME SUMMARY

Sovereign yields moved sharply lower across developed economies in recent months due to expectations of weaker economic growth, a concern that also prompted many central banks to adopt a more dovish stance. Markets are now expecting increased accommodation from central banks in the second half of the year. This could come in multiple forms, including rate cuts, quantitative easing, forward guidance and targeted funding programs as sluggish economic growth and low inflation rates persist. Credit spreads remain stable as an accommodative central bank backdrop is allaying default concerns and keeps financing rates and debt servicing ratios in check. The sharp decline in available yield from low-risk assets also intensifies the search for high- quality income in a generally supportive environment for carry. While higher-quality credit spreads are low, they are not at their tights and valuations appear fair. With EM growth potentially picking up modestly and DM growth potentially decelerating, the EM-DM growth differential, which has historically been a key driver of capital flows into EM, could modestly widen, supporting EM asset prices.

For the full story see page 7

Central Bank Policy Rates



Source: FactSet as of 31 May 2019.

	YIELD TO MATURITY (%)		DURATION (YEARS)	
	Current	10-Year Average	Current	10-Year Average
US Treasuries	1.9	2.8	6.4	5.6
Global ex US Sovereigns	0.9	1.4	7.9	6.7
Emerging Markets Debt	5.8	7.8	7.4	7.0
Global Investment Grade	2.5	3.9	6.7	5.8
Global High Yield	6.2	8.8	3.8	4.5
US Municipal Bonds	2.0*	3.4*	5.5	7.2

Source: FactSet as of 30 June 2019. US Treasuries = Bloomberg Barclays US Aggregate Government Treasury Index, Global Sovereigns ex US = Bloomberg Barclays Global Aggregate ex US, Emerging Market Debt = JP Morgan EMBI Global, Global Investment Grade = Bloomberg Barclays Global Aggregate Corporate, Global High Yield = Bloomberg Barclays Global High Yield, Municipal Bond = Bloomberg Barclays US Municipal.

*yield to maturity unavailable for the municipal bond, so yield to worst is shown instead.

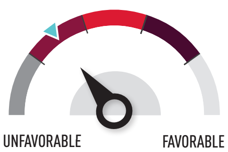
Third Quarter 2019 - Global Edition

Capital Markets View

OUTLOOK	EQUITY INSIGHTS	LONG-TERM VIEW

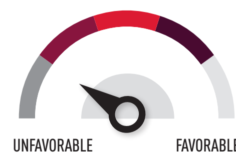
UNITED STATES

Outlook:



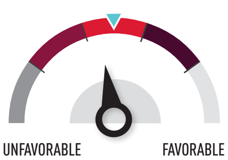
- Analysts project a 2.6% drop in S&P 500 EPS in Q2, which follows a 0.6% drop in Q1. If realized, that would mark the first earnings recession since H1 2016.
- Signals from the US Federal Reserve that it could lower interest rates in coming months have supported equities and led to multiple expansion, pushing valuations slightly above long-term averages. The rally to record highs in the S&P 500 comes amid a backdrop of "bad news is good news," fueled by the anticipation of lower interest rates, not just in the US but also around the globe.
- The US-China trade relationship remains unresolved, prompting many companies to rapidly reorient established supply chains beyond China. This is proving challenging and could erode what have been very robust net margins.
- The potential for a lower US dollar as a result of anticipated rate cuts would be a tailwind for US equities, though slowing global economic growth is a substantial headwind.
- We continue to favor value over growth and large cap over small cap.

Long-term view:



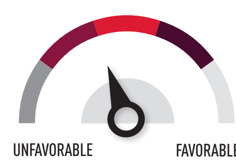
CANADA

Outlook:



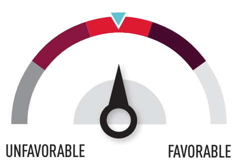
- Despite slow economic growth and an inverted yield curve, Canada is a bit of an outlier compared with most developed economies due to moderate upside inflation pressure and a less-dovish-than-most central bank. Any near-term pressure to cut official interest rates is likely to be external rather than internal due to slowing global growth and the potential for increased trade friction. The United States-Mexico-Canada Agreement has yet to be ratified in Canada or the US.
- Canada's important energy sector has stabilized of late, with efforts underway to alleviate congestion on existing oil pipelines and to diversify exports away from the US, which has increased domestic production. The financial sector, also important, is being challenged by the yield curve inversion.
- Canada's once-overheated housing market has begun to stabilize. Government programs to support young homebuyers and prospects for steady interest rates have supported the sector.

Long-term view:



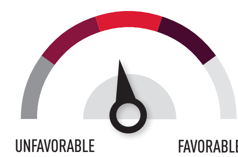
KEY: ▼ Q2 '19 Q3 '19

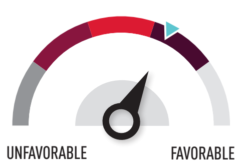
OUTLOOK	EQUITY INSIGHTS	LONG-TERM VIEW



EUROPE EX UK

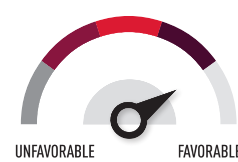
- Uncertainty surrounding global trade has weighed particularly heavily on the export-focused German economy. Though the US has postponed a final decision on auto tariffs until late 2019, levies of up to 25% could be imposed at any time, a prime source of uncertainty. Global auto sales are expected to contract in 2019 by low single digits. Major European brands recently announced price cuts in China, where sales have fallen approximately 10% from year-ago levels.
- Financial stability risks are rising in Europe as in the US given the prolonged period of very accommodative monetary policy. Leverage is rising for businesses and households, and investors are taking additional risks in search of yield in a world of increasingly negative-yielding debt.
- Amid a decline in market-based inflation measures to record lows, the European Central Bank shifted to an easier policy stance in recent weeks. Easier monetary policy globally, along with the increasing possibility of greater fiscal stimulus from China, has cushioned risk assets. However, markets are concerned that the ECB has relatively few tools with which to fight a further slowdown in inflation and growth.
- Brexit uncertainty and continued discord between the European Commission and Italy over the country's debt level are ongoing sources of concern. A stronger euro is also a headwind.
- European equities continue to lag global equities while valuations are in-line with the 10-year average of LTM earnings, at 17.4x.





UNITED KINGDOM

- UK equities have underperformed global and European equities in 2019 with Brexit uncertainty playing an increasing role in the underperformance. As a result, valuations are quite attractive historically, trading at 13.2x LTM versus a 10-year average of 15.7x.
- Record-high gaps between free cash flow yield and 10-year gilt yields as well as between the dividend yield and gilt yields suggest that UK equities offer value against an uncertain Brexit background.
- The Brexit delay until 31 October has forestalled a "no deal" scenario but has not lessened uncertainty. The EU is unlikely to budge on material aspects of the withdrawal agreement, upping the odds that either a general election or a second referendum is called. It is difficult to discern what the outcome of a general election would be, with the established political parties continuing to lose ground in an increasingly fragmented political environment. The base case remains either a deal or an additional Article 50 extension.

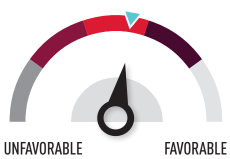


KEY: Q2 '19 Q3 '19

OUTLOOK	EQUITY INSIGHTS	LONG-TERM VIEW

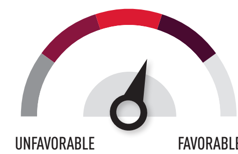
JAPAN

Outlook:



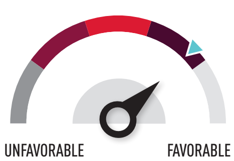
- With global growth and trade slowing, largely as a result of spillovers from the US–China trade war, Japan is debating whether to move forward with a planned hike in the twice-delayed consumption tax — from 8% to 10% — slated for 31 October. The last such hike resulted in an economic slowdown.
- With the BOJ already quite dovish, Governor Haruhiko Kuroda has thus far not matched the increased dovishness of the Fed and ECB. At the BOJ's June meeting, Kuroda said it is possible that the central bank could allow 10-year JGB yields to overshoot the bank's -0.2% floor. An aggressive Fed cut in coming months could prompt the ECB to push rates further into negative territory to try to alleviate the potential for a stronger yen.
- Despite low expectations for global growth, Japanese companies are increasing capital expenditures, partly because of firms' on-shoring production due to stretched supply chains.
- Dividend yields remain very attractive, at 2.6%, which compares with the 10-year JGB yield of -0.16%. Continued corporate governance reform and an increased focus on stock buybacks are tailwinds amid lower-than-average valuations.

Long-term view:



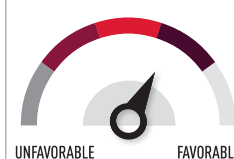
ASIA EX JAPAN

Outlook:



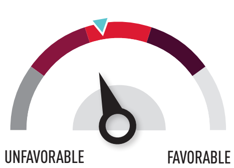
- The region has been buffeted by the intensifying trade battle between the US and China, with global and regional supply chains being put to the test. Regardless of the outcome of the ongoing US-China dialogue, a desire by some firms to avoid dependence on China as their principle manufacturing hub could help boost prospects for countries in the region.
- Global growth and trade continue to deteriorate, particularly undermining countries that are tightly integrated with Chinese supply chains.
- Financial conditions eased over the quarter amid interest rate cuts from some central banks, including the Reserve Banks of India and Australia, targeted stimulus by China, diving developed market bond yields and firmer global equity prices.
- Additional Chinese stimulus, significant rates cuts from the Fed and hopes for a meaningful US-China trade deal would be near-term positives for the region.

Long-term view:



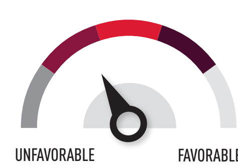
AUSTRALIA

Outlook:

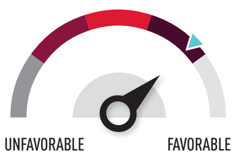
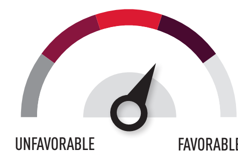


- Prices are near their highest levels since just before the outbreak of the global financial crisis as domestic uncertainty moderated with the Liberal-led coalition's surprise win in May's general election. The right-leaning coalition is seen as substantially more market-friendly than the opposition Labor Party.
- The Reserve Bank of Australia joined the parade of global central banks easing policy or preparing to ease policy by cutting it policy rate to a record low 1.25% in June and indicating it is likely to cut rates further amid slow growth and low inflation. The move is seen as a step toward offsetting the effects of a falling housing prices as a result of macro prudential policies that have prompted consumers to rein in spending.
- A weak Australian dollar is a tailwind for the country's on-commodity exporters. The currency has fallen 38% from its 2011 high and is acting as a shock absorber for the economy.
- From a valuation perspective, trailing twelve-month earnings are right in line with their post-GFC average.

Long-term view:

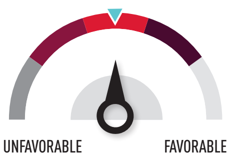


KEY: ▼ Q2 '19 Q3 '19

OUTLOOK	EQUITY INSIGHTS	LONG-TERM VIEW
	**EMERGING MARKETS** ▪ Fading hopes for a quick resolution of the US-China trade standoff have undermined investor confidence, though easier monetary policy stances from global central banks and moderate fiscal and monetary stimulus from China are acting as a counterbalance. ▪ A somewhat weaker dollar based on expectations of easier Fed policy in coming months is supportive of EM, though the magnitude of dollar weakness thus far has been modest. ▪ Prior to May's breakdown in trade talks, economic indicators in Korea, Taiwan and Singapore appeared to be building a bottom. An agreement to extend talks struck at the G20 may help stabilize global trade flows. ▪ EM looks somewhat attractive relative to global equities from a long-term perspective given its modest undervaluation. A growing share of technology as a percentage of market capitalization is supportive as emerging markets move up the global value chain.	

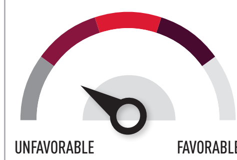
KEY: Q2 '19 Q3 '19

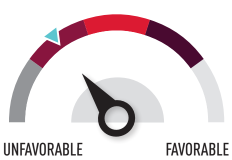
OUTLOOK	FIXED INCOME INSIGHTS	LONG-TERM VIEW



US TREASURIES

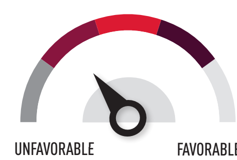
- An increasingly dovish Federal Open Market Committee has prompted markets to price in around 100 basis points of Fed easing through 2020. After its June meeting the committee acknowledged that trade uncertainty was impinging on economic activity and that it no longer viewed weak inflation as merely transitory.
- With the market anticipating policy easing, 10-year yields have declined to around 2%, a considerably lower level than where they started the year. Expectations of tepid US economic growth, low inflation rates and ongoing trade tensions appear likely to keep yields contained.
- Global sovereign yields have fallen sharply in recent months, with German and Japanese nominal yields at or near record lows. Consequently, Treasuries look relatively more attractive than non-US sovereigns on an unhedged basis.





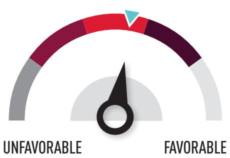
GLOBAL EX US SOVEREIGNS

- Slowing growth, benign inflation and ongoing geopolitical and trade uncertainty are pushing global central bank policies further into dovish territory. Only Norway bucked this trend, with even the previously more hawkish central banks reversing their stance.
- Core non-US sovereign bond yields are at or near record lows, and in the case of Japan and the core Eurozone, deeply negative. As such, much of the market offers little value, particularly at the front end of curves.
- Dollar bloc markets such as Canada and Australia offer greater relative value due to their central banks having more room for maneuver than others.
- While spreads in the eurozone periphery have compressed as investors have scrambled for positive yields, some select relative value opportunities do remain. We also like curve-flatteners in markets like Portugal given relatively steep curves and the ongoing search for euro- denominated yield. Italy has lagged the rest of the periphery due to political woes and conflict with the European Commission. It is, however, trading at the tighter end of the post-2018 election trading range.
- In the United Kingdom, the Bank of England's Monetary Policy Committee (MPC) remains on hold while Brexit uncertainty is unlikely to be resolved any time soon. A positive resolution of Brexit would likely see the MPC move towards a more hawkish stance. Forward curves provide no protection for this making the front-end of the UK market look rich.
- The Bank of Japan was not as dovish as the Fed or ECB at its June meeting but did indicate that it may allow the 10-year Japanese government bond yield to fall below the -0.2% floor previously established.



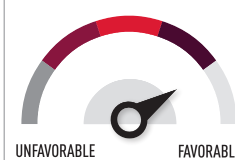
KEY: Q2 '19 Q3 '19

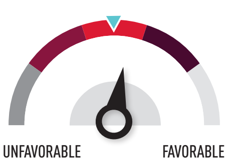
OUTLOOK	FIXED INCOME INSIGHTS	LONG-TERM VIEW



EMERGING MARKET SOVEREIGNS

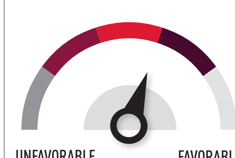
- The global backdrop is modestly less constructive amid trade tension between the United States and China. Risks associated with the trade war could potentially feed end-of-cycle worries, offsetting the benefits of a dovish Fed and leading to increased market volatility. To the extent trade worries intensify, the dollar could benefit from a safe-haven bid, putting pressure on EM FX. Slowing US growth and a dovish Fed should soften the dollar, but not if other economies and central banks are perceived as even weaker and more dovish.
- Despite these concerns, we note a relatively positive backdrop for EMD. While global growth is moderating, it remains above potential. Patient central banks and accommodative monetary policies could prolong late-cycle growth. With the potential for EM growth to pick up modestly and developed market growth to further decelerate, the EM-DM growth differential, which has historically been a key driver of capital flows into EM, could modestly widen, supporting EM asset prices.
- From a valuation perspective, EM spreads remain cheap to US high-yield corporates and fair value to US investment-grade credit. EM corporates still look rich to EM sovereigns. EM local yields are mixed, but generally benefit from slowing global inflation, and we have maintained a modest exposure in local rates. EM FX is relatively cheap, but represents higher beta to global markets and is generally vulnerable to increased volatility. With episodes of volatility likely to arise, differentiation among credits on the basis of fundamentals and valuation remains a critical success factor for active managers.
- Market technicals have shown signs of softening recently. Although external sovereign issuance has slowed and net new issuance for the balance of the year has been quite modest, retail demand has weakened. After a very strong start to the year (18 consecutive weeks of net inflows into EMD vehicles), inflows have tapered off and recently shifted to modest net outflows. Nevertheless, total inflows year-to-date have been strong, at approximately $38 billion as of late May.





GLOBAL INVESTMENT-GRADE CORPORATES

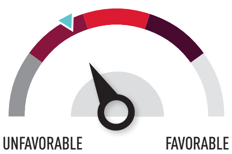
- Increasingly dovish central bank rhetoric and the prospect of further injections of liquidity into markets are likely to be supportive for investment-grade credit. The sharp decline in available yield from risk free assets also intensifies the search for high-quality income in a generally supportive environment for carry.
- While credit spreads are low, they are not at their tights, and valuations appear fair.
- Corporate fundamentals are stronger in Europe in comparison with the US, but European political uncertainty is a hindrance. There is little commitment to deleveraging by US companies. The resolution of the ongoing US–China trade war would likely prove positive for US credit.
- Given the strong rally already witnessed in credit markets, security selection is likely to prove paramount moving forward. While the dispersion of IG name valuations has increased since 2017, it remains tight by historical standards



KEY: Q2 ‘19 Q3 ‘19

OUTLOOK	FIXED INCOME INSIGHTS	LONG-TERM VIEW

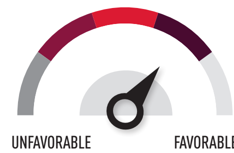
OUTLOOK



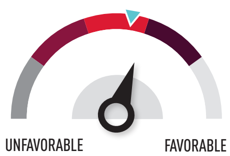
GLOBAL HIGH-YIELD CORPORATES

- Following widening in the middle of the quarter, high-yield spreads reacted positively to dovish comments by the Fed and ECB in June. For the full Q2 period, higher quality, longer duration, and developed markets generally outperformed.
- The outperformance of quality underscored the market's faith in monetary policymakers and the demand for yield yet illustrates investors' discomfort with taking on significant credit risk.
- We have been skeptical of a rebound in economic activity this year as the global economy faces a number of headwinds. At the same time, the compensation appears poor for taking on risks associated with the lower-quality segments of the high-yield market.
- Against this backdrop, it may be prudent to position portfolios up-in-quality and underweight emerging markets.

LONG-TERM VIEW



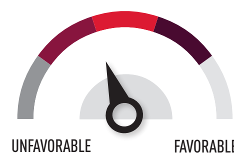
OUTLOOK



US MUNICIPAL BONDS

- Supported by the Fed's dovish comments and falling US rates, municipal bonds continued their year-to-date rally through the second quarter.
- Underpinning the rally are reasonably strong tax revenues, which support municipal fundamentals, and record inflows chasing limited supply.
- With the rally, spreads have tightened to historically tight levels offering limited compensation for risk taking.
- We continue to favor the asset class based on the benign rate backdrop, solid fundamentals and strong technicals. However, in our view, tight valuations require selectivity and the avoidance of more vulnerable credits.

LONG-TERM VIEW



KEY: ▼ Q2 '19 Q3 '19

MFS Capital Markets View is published each quarter to provide a broad perspective on current risks and opportunities across asset classes and regions.

The Current Outlook and Long-Term View illustrations include return and risk expectations for equity, fixed income and alternative asset classes across country, regional and global markets. The focus of these illustrations is to provide a strategic, long-term, current and forward-looking view of various global markets. We use a proprietary top-down approach by employing quantitative, country-based models as the foundation for our expectations and then integrating bottom-up fundamental views from our global equity and fixed income investment teams to inform our final expectations.

Our expectations are developed across 26 countries comprising 18 developed countries and 8 emerging market countries.

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