

Tactical Update

MAY 2024 | Opinions as of June 12, 2024

The views expressed in this tactical update apply broadly to all Sun Life Granite Managed Portfolios, whereas the tactical highlights and allocation data in the chart below are specific to Sun Life Granite Balanced Portfolio. For the latest information about other Sun Life Granite Managed Portfolios, including Sun Life Granite Managed Income Portfolios, please refer to our quarterly fund reviews published at sunlifeglobalinvestments.com.

Financial markets had a strong run in May and both equities and bonds built on those gains in early June. While the U.S. continued to post strong job numbers throughout 2024, the fight against inflation stalled during the first quarter of 2024.

But that changed in May, when consumer price inflation (CPI) decelerated to 3.4%, the slowest pace in more than three years. Further, retail spending also moderated in the world's largest economy. All these pointed to market expectations of a "goldilocks" scenario - stable growth alongside mild inflation for

the U.S. economy.

As a result, the S&P 500 hit another record high level in May and U.S. Treasuries had their best month in 2024.

As May's inflation figures fell, markets rapidly priced in two 25 bps interest rate cuts from the Fed and equities rose further. But the Fed took a more cautious stance and forecast just one 25 basis point rate cut in 2024 as it cited the need for more progress to fight inflation.

Continued on next page ▶

TACTICAL HIGHLIGHTS

CHANGE

We reduced our overweight position in U.S. equities to neutral.



Overweight China equities



Neutral U.S. investment grade and global high-yield bonds



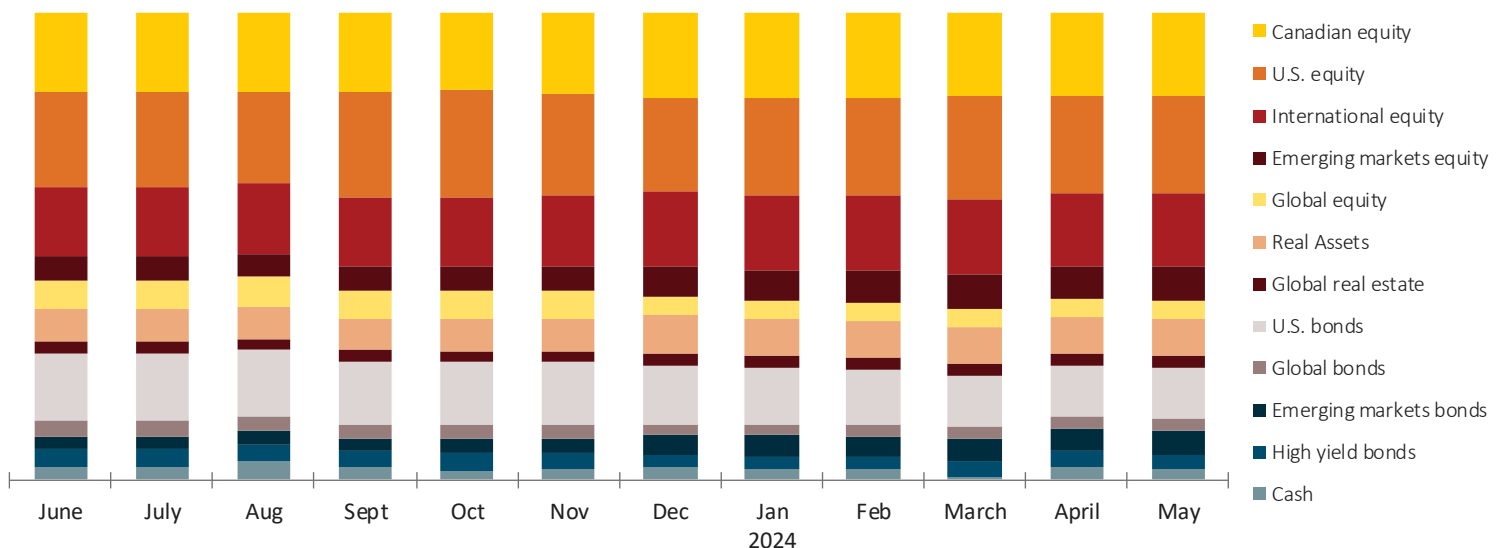
RATIONALE

In April, markets were too pessimistic about U.S. equities, and this gave us an opportunity to enter the asset class. We booked profits and turned neutral to U.S. equities after they rallied in May.

Investor sentiment towards China is rock bottom. This has given us the opportunity to enter the Chinese equity market at attractive valuations

A cautious stance from the Fed on interest rate cuts could result in markets not getting the magnitude of interest rate relief they expect

TACTICAL ALLOCATIONS | SUN LIFE GRANITE BALANCED PORTFOLIO



Allocations are as of month-end unless otherwise noted and subject to change without notice.

► *Continued from previous*

We think the Fed is right to be cautious. Since the beginning of this interest rate hiking cycle in 2022, inflation has blindsided markets a few times. In early 2024, when markets believed that the Fed would cut interest rates multiple times, stubborn inflation held back the Fed. Even now at 3.4%, CPI is above the Fed's target. While we see inflation is likely to fall, we also see the need to be vigilant against upside risks to inflation.

We believe we are late in the economic cycle, and that equity markets could get more volatile even if they continue to climb. Further, while the U.S. economy has shown resilience thanks to strong government spending, other major markets including Europe and Canada are weakening as higher interest rates weighed on their economies. In the U.S., equity markets continue to be driven by a handful of technology stocks. Market breadth, or the portion of stocks driving the rally, is currently better than 2023's breadth, but is still narrow. This worries us.

Given this scenario, we are neutral towards equities across geographies except for our small tactical overweight position in

China, where extreme market pessimism has resulted in favourable valuations. We think bonds are more attractive and we are looking for an opportunity to increase our exposure to the asset at more advantageous yields.

Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Investors should read the prospectus before investing. The indicated rates of return are the historical annual compounded total returns including changes in security value and reinvestment of all distributions and do not take into account sales, redemption, distribution or other optional charges or income taxes payable by any securityholder that would have reduced returns. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated.

Views expressed regarding a particular company, security, industry or market sector should not be considered an indication of trading intent of any mutual funds managed by SLGI Asset Management Inc. These views are subject to change and are not to be considered as investment advice nor should they be considered a recommendation to buy or sell. This commentary is provided for information purposes only and is not intended to provide specific individual financial, investment, tax or legal advice. Information contained in this commentary has been compiled from sources believed to be reliable, but no representation or warranty, express or implied, is made with respect to its timeliness or accuracy.

This commentary may contain forward-looking statements about the economy and markets, their future performance, strategies or prospects or events and are subject to uncertainties that could cause actual results to differ materially from those expressed or implied in such statements. Forward-looking statements are not guarantees of future performance and are speculative in nature and cannot be relied upon.

SLGI Asset Management Inc. is the investment manager of the Sun Life family of mutual funds.

Sun Life Global Investments is a trade name of SLGI Asset Management Inc., Sun Life Assurance Company of Canada and Sun Life Financial Trust Inc. all of which are members of the Sun Life group of companies.

© SLGI Asset Management Inc. and its licensors, 2024. SLGI Asset Management Inc. is a member of the Sun Life group of companies. All rights reserved.