SUN LIFE GRANITE MANAGED PORTFOLIOS

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.

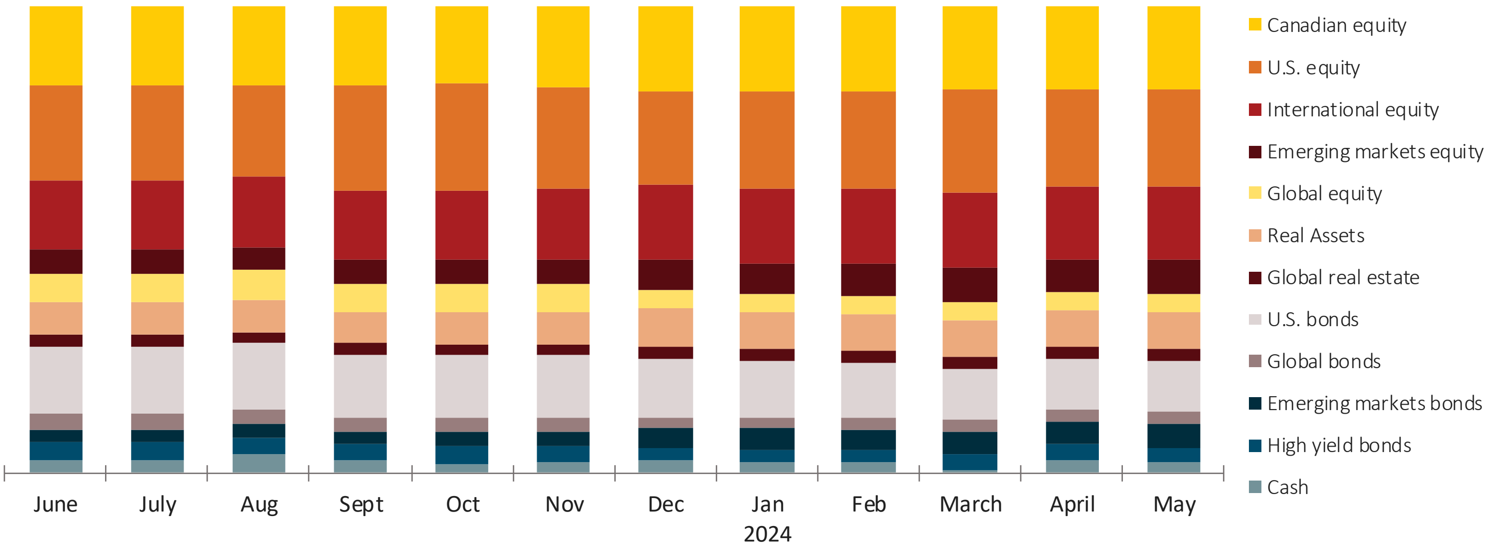
As May's inflation figures fell, markets rapidly priced in two 25 bps interest rate cuts from the Fed and equities rose further. But the Fed took a more cautious stance and forecast just one 25 basis point rate cut in 2024 as it cited the need for more progress to fight inflation.

Continued on next page

TACTICAL HIGHLIGHTS

CHANGE	RATIONALE
We reduced our overweight position in U.S. equities to neutral.	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.
Overweight China equities	Investor sentiment towards China is rock bottom. This has given us the opportunity to enter the Chinese equity market at attractive valuations
Neutral U.S. investment grade and global high-yield bonds	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.

Sun Life Global Investments
1 York Street, Toronto, Ontario M5J 0B6
T: 1.877.344.1434 | E: info@sunlifeglobalinvestments.com
sunlifeglobalinvestments.com/Commentary