SUN LIFE GRANITE MANAGED PORTFOLIOS

Tactical Update

DECEMBER 2024 | Opinions as of Dec 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.

After climbing steadily through 2024, U.S. equities rose to record highs in early December. Enthusiasm about artificial intelligence (AI) and U.S. large-cap technology stocks along with president-elect Donald Trump's "America First" economic policies broadened the equity rally. As a result, U.S. cyclicals and small-cap stocks that sat out last year's equity rally also enjoyed a stellar run in 2024. The Russell 3000 Index, which represents a broader group of U.S. companies, climbed 28% as of early December and matched the performance of the large-cap dominated S&P 500 Index. Developed market equities outside the U.S. did well too, as central banks such as Bank of Canada and the European Central Bank cut interest rates.

In contrast, bond markets were more volatile in early December. While Trump's tax cut and tariff policies are expected to boost U.S. domestic demand and benefit America's corporate sector, bond markets seemed to worry about these policies' impact on inflation. As a result, the yield on the U.S. 10-year Treasuries spiked to about 4.3% in early December, up from 3.6% in September.

Worries about inflation are understandable. After the U.S. Federal Reserve (the Fed) put more emphasis on growth and employment with its 50 basis points (bps) rate cut in September, achieving its other mandate of price stability is now more challenging. In November, the U.S. Consumer Price Index (CPI) inflation rose 2.7% and core CPI, which excludes volatile food and energy, increased by 0.3% for the fourth straight month.

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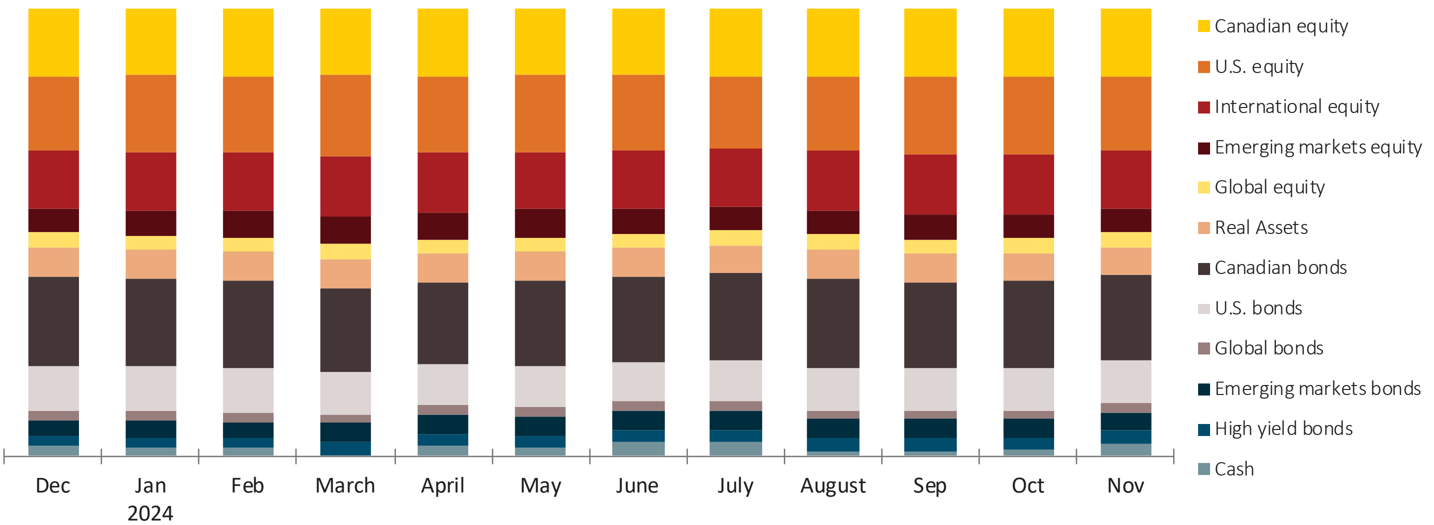
TACTICAL HIGHLIGHTS

CHANGE	RATIONALE
Neutral overall equities	Elevated valuation and high concentration in large-cap equities could limit further upside in both U.S. and other developed market equities.
Overweight U.S. small-cap equities	Relatively attractive valuation of U.S. small-cap equities over large-cap stocks and a favourable environment amid Trump's "America First: economic policy may help the asset class rise more.
Overweight gold	We are overweight gold as a hedge against both recessionary and inflationary risks.

TACTICAL ALLOCATIONS | SUN LIFE GRANITE BALANCED PORTFOLIO



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

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Stubborn inflation is likely impacting the Fed's path for future interest rate cuts. Markets, which had expected steady rate cuts from the Fed in 2025, now think there is higher chance that the Fed could pause its interest rate-cutting cycle sooner in 2025. While we are optimistic about the U.S. economy's growth prospects in 2025, we think a jump in yields could act as a headwind for U.S. equities. In our opinion, the Trump administration implementation of its policies for tariffs, tax cuts and immigration matter as much as the policy itself. If tax cuts and tariffs precede a stricter immigration regime, this may be a net positive for the U.S. economy. However, if more rigid immigration rules come into effect before tax cuts and tariffs, this could be net inflationary for the economy.

Given this view, we are tactically neutral to both overall equities and bonds in our portfolios. But within stocks, we prefer U.S. small cap equities. We are overweight this asset class because Trump's "America First" economic policy indirectly favour U.S. domestic-oriented small businesses. Secondly, while U.S. large cap equities are trading at record valuations and represent a concentrated trade, small-cap stocks are trading at cheaper valuations compared to their long-term averages. Further, consensus earnings growth estimates predict a favourable earnings growth environment for small-cap stocks. We are also underweight cash in an environment of declining rates. Also, we are overweight gold, expecting it to be a hedge not only against recessionary risks but also against potential inflationary policies from the incoming Trump administration.

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