SUN LIFE TACTICAL FIXED INCOME ETF PORTFOLIO

Tactical Update

NOVEMBER 2019 | Opinions as of December 15, 2019

The United States and China took the first steps toward possibly ending their trade war, after reaching Phase One of an agreement. It would reduce some U.S. tariffs in exchange for increased Chinese purchases of American farm products and other goods.

The agreement comes with the U.S. economy continuing to put up strong job numbers. As well, Purchasing Managers Indexes have been rising globally and the reduction of tariffs may add to global economic strength in the coming months. The U.S. Federal Reserve has also indicated that it plans to remain on the sidelines in 2020.

In terms of fixed income, we reduced our cash weighting and added to our overweight exposure to U.S. investment grade bonds and emerging market government debt.

With stronger economic growth in North America compared to other developed markets, the Bank of Canada's overnight rate is still relatively high at 1.75%. As well, the U.S. Federal Reserve's key rate is at 1.75 % – the European Central Bank's rate is at -0.5%.

Hence, we believe Canadian and U.S. investment grade bonds carry less risk with comparatively more attractive yields if we get a cyclical upswing.

If interest rates do continue to fall and compress yields, it will become even more difficult to find an adequate payout. And that reality led us to add to our overweight position in emerging market government debt, which currently has a better risk/return profile than high yield bonds.

We are underweight high yield bonds, believing they would be the first to deteriorate in a downturn. As well, if we have a correction in the equity markets, spreads between government and high yield bonds could widen sharply.

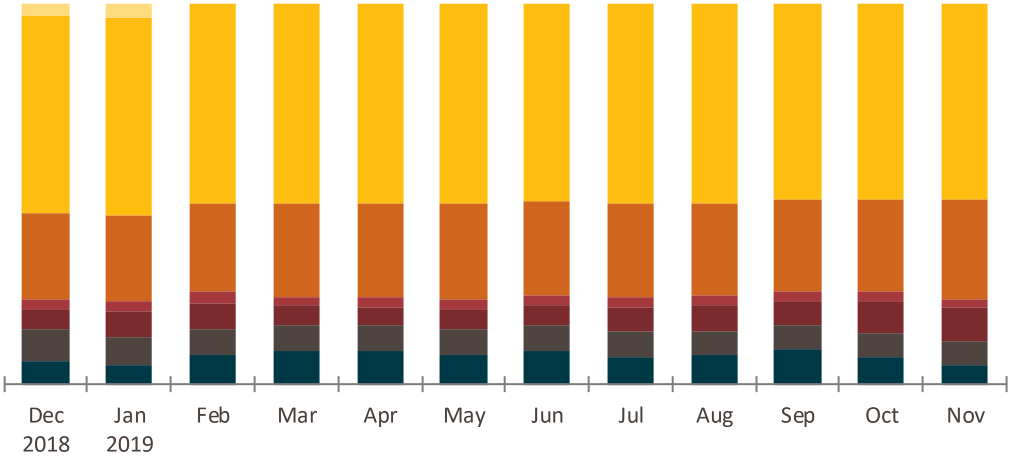
While interest rates are generally higher in emerging markets, rates have been falling with the slowdown in China's economy spilling over into other key EM countries.

That trend could reverse or ease if the U.S. and China move beyond their Phase One agreement to a broader settlement of their trade dispute. But since August 14th, 37 major EM central banks have cut interest rates, and the IMF forecasts that EM-wide growth will slow to a post-financial crisis low of 4.1% this year. However, we believe that in a yield-starved world, emerging market government debt may still ultimately prove to be the last best option.

TACTICAL HIGHLIGHTS

CHANGE	RATIONALE
Reduced cash	Added EM government debt, U.S. investment grade bonds
Increased weighting in emerging market government debt	Higher potential returns
Added to slight overweight in U.S. investment grade bonds	Continuation of barbell strategy with EM government debt

TACTICAL ALLOCATIONS | SUN LIFE TACTICAL FIXED INCOME ETF PORTFOLIO



	STRATEGIC	TACTICAL
Global equity	-	0.0%
Canadian bonds	50.0%	51.7%
U.S. bonds	22.5%	25.8%
Global bonds	2.5%	2.5%
EM bonds	5.0%	8.5%
High yield bonds	10.0%	6.5%
Cash	10.0%	5.0%

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

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