MFS Investment Management

February/March 2026

Global Market Pulse

USD based

Top-down and asset allocation perspectives over the next 12 months

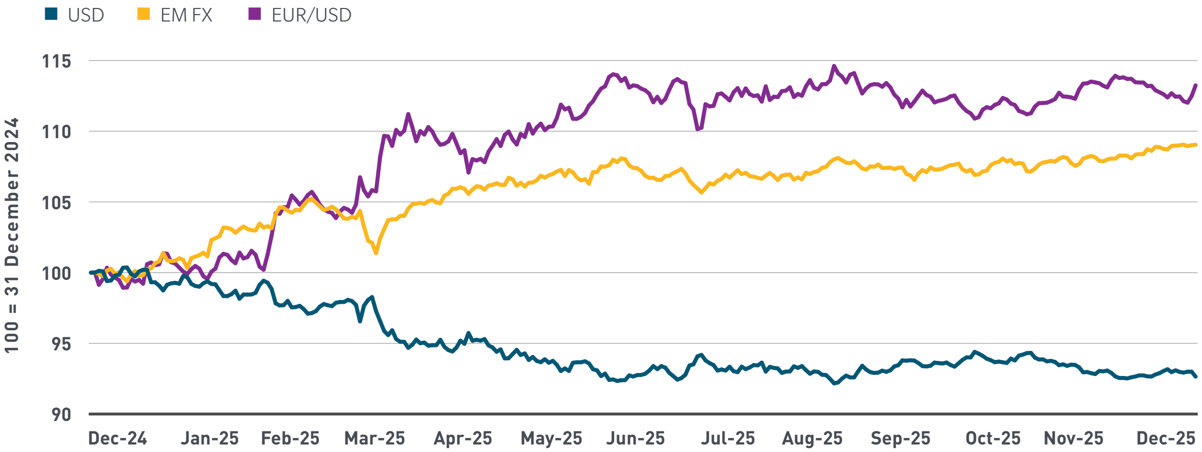
Market Insights Team

KEY TAKEAWAYS

- Amid resilient global growth, greater breadth in earnings, and a global fiscal tailwind, the backdrop for equities remains positive.
- With rich valuations in the US, we expect earnings growth, rather than multiple expansion, to be the main driver of returns. Against a backdrop of improving growth and more reasonable valuations, we favor midcaps and value.
- Outside the US, Europe and Japan appear best positioned from an equity perspective amid improving economic growth, reasonable valuations and significant fiscal stimulus.
- With global credit spreads historically tight, we maintain an up-in-quality bias.

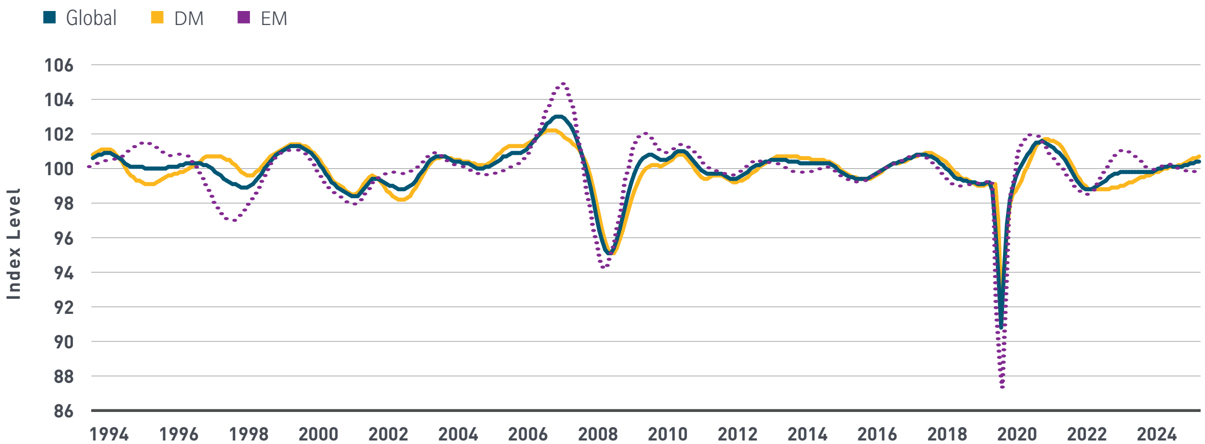
Economy & Markets

DAMAGED DOLLAR DOMINANCE



Source: Bloomberg. Daily data from 31 December 2024 through 20 January 2026. USD Dollar = Goldman Sachs Trade Weighted Dollar Index. EM FX = J.P. Morgan Emerging Market Currency Index. USD/EUR = USD/EUR spot. All indexed to 100 as of 31 December 2024.

OECD LEADING INDICATORS POINT TO STABILIZING GLOBAL GROWTH



Source: OECD. Monthly data from 31 January 2000 to 31 December 2025. A reading above 100 and rising = economic expansion, above 100 and falling = downturn, below 100 and falling = slowdown, and below 100 and rising = recovery. The global proxy is GDP-weighted using 2019 nominal GDP from the IMF (World Economic Outlook database October 2021). The global proxy is made up of 37 countries, including all OECD countries + 13 EM countries.

Downside Risks to the Dollar

MFS PERSPECTIVE

- In 2025, the dollar struggled against both advanced and emerging market currencies.
- In 2026, the dollar may weaken more gradually against the euro but remain soft versus emerging markets.
- Continued dollar weakness, tied to doubts about US policy, may boost emerging market returns.

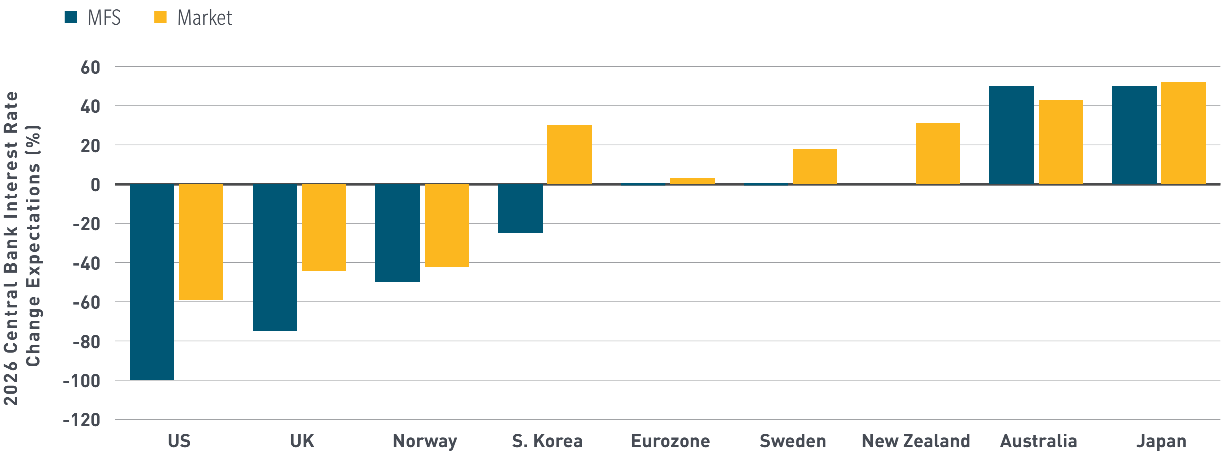
The Global Growth Outlook Remains Solid

MFS PERSPECTIVE

- The data suggest that growth is not slowing, consistent with resilient but moderating expansion.
- Improving signals reflect solid economic activity and sustained AI-led investment, particularly in the US and Europe.
- However, risks remain, including technology de-rating, inflation, and trade and geopolitical tensions.

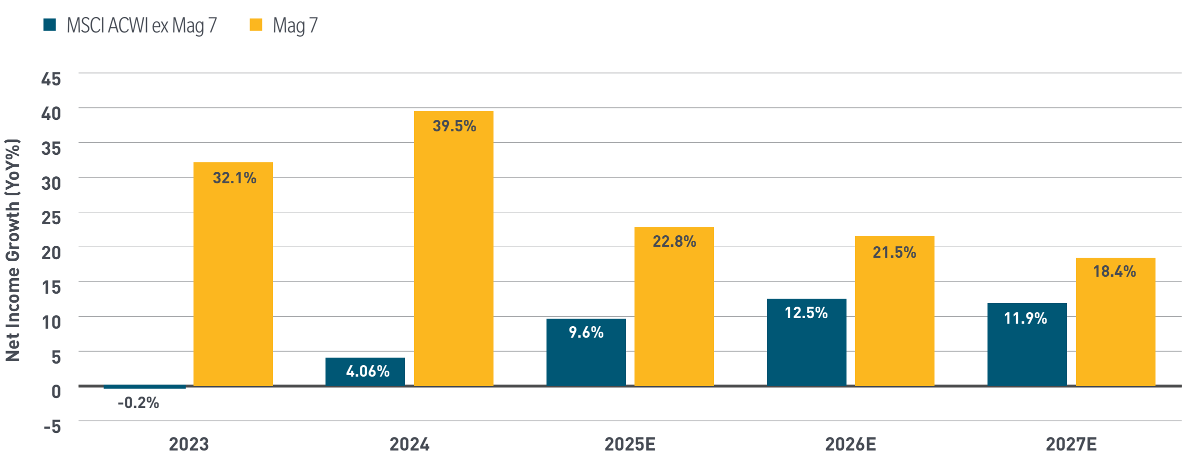
Economy & Markets

GLOBAL CENTRAL BANK POLICY IS DIVERGING



Source: Bloomberg, MFS Research. Data and views as of 5 January 2026.

MAGNIFICENT 7 EARNINGS ARE EXPECTED TO MODERATE



Source: FactSet Portfolio Analysis. Earnings estimates as of 31 December 2025. Annual earnings data uses the year over year change in actual and estimated calenda year earnings results. Mag 7 ("Magnificent Seven") companies represented by Alphabet, Amazon, Apple, Meta, Microsoft, NVIDIA, and Tesla. **The information included above as well as individual companies and/or securities mentioned should not be construed as investment advice, a recommendation to buy or sell or an indication of trading intent on behalf of any MFS product.**

Divergent Central Bank Policy May Drive Return Differentials

MFS PERSPECTIVE

- After several years of a globally-synchronized rate cycle, central bank policy stances are diverging as policymakers focus on their own domestic conditions.
- Active fixed income managers can utilize this divergence to avoid frothy rate markets and invest where the duration outlook is favorable.

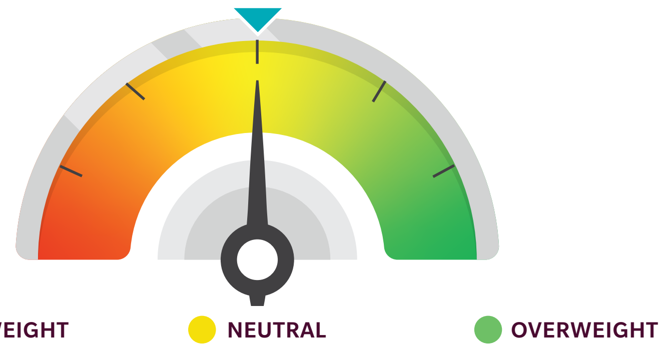
Global Earnings Expectations Are Broadening Out

MFS PERSPECTIVE

- The earnings growth gap between megacap technology companies and the rest of the global market is narrowing.
- Improving breadth of earnings is positive for performance breadth.
- Increasing capex from the hyperscalers may further narrow price performance as cash is utilized for AI spending rather than share repurchases.

US Equity
USD based

US



- We have increased our rating as the environment remains constructive, supported by earnings and a potential reacceleration of economic growth in 2026.
- Valuations reflect high expectations, so strong corporate earnings will continue to be the primary return driver moving forward.
- The monetary and fiscal policy backdrop remains supportive.
- We favor large and mid-cap stocks over small caps, as well as value over growth.

MFS CONSIDERATIONS

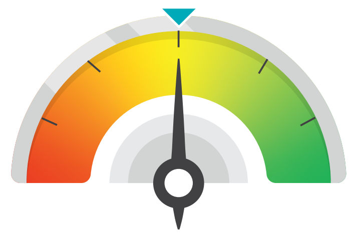
LARGE CAP	SMALL/MID CAP	GROWTH	VALUE
▪ High valuations remain a risk, but megacap tech leadership has been supported by outsized earnings. ▪ Broadening earnings and increased economic activity may catalyze continued rotation into cyclical and value stocks.	▪ A strong US consumer provides support for SMIDs, which tend to derive revenue from domestic sources. ▪ Valuations remain discounted relative to large caps. ▪ SMIDs tend to have higher sensitivity to borrowing costs and should perform well in a declining rate environment.	▪ Relative earnings growth between the megacap technology names and the rest of the index is expected to narrow in 2026. ▪ Growth valuations remain stretched and will likely rely on strong earnings to continue performing well.	▪ Reaccelerating economic growth could be a catalyst for cyclical value stocks to outperform moving forward. ▪ The valuation discount between growth and value persists, making value appear relatively attractive.

Global Developed Equity - Ex US
USD based

EUROPE EX UK

- Europe stays in expansionary territory as growth firms, with the focus on the German fiscal rollout.
- Lower rates are lifting sentiment and are reflected in improving PMIs.
- Earnings are set for a meaningful recovery in 2026.

UK



- UK growth remains subdued, with a softening labor market weighing on the domestic outlook while fiscal constraints limit policy flexibility.
- Despite this, the FTSE offers broad exposure to global structural themes.

JAPAN

- Japan is supported by a constructive global backdrop, expectations of positive real wage growth, and expansionary fiscal policy.
- Risks remain, including Japan-China tensions and fiscal sustainability concerns.

MFS CONSIDERATIONS

- Combined fiscal support and easier monetary policy should aid the earnings recovery.
- Markets have re-rated; beta returns are now more likely to track underlying earnings trends.
- Focus on fundamentals and selective opportunities, avoid risks from intensified competition with China.

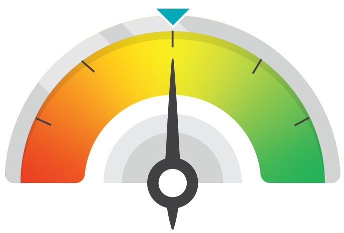
- UK banks remain well positioned, even after recent outperformance, supported by strong capital and balance sheets.
- The FTSE provides access to leading materials, defense, and staples names, reinforcing the UK as a stockpicker's market.

- Governance and ROE reforms continue to drive buybacks, M&A, and shareholder returns.
- Earnings upgrades remain strong and valuations undemanding, but remain cautious over rising rates.
- Foreign inflows are returning as sentiment improves.

UNDERWEIGHT NEUTRAL OVERWEIGHT

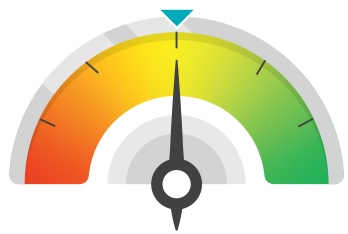
Emerging Markets
USD based

EM EQUITY



- EM growth continues to outperform, while inflation remains contained.
- AI-related optimism supports the outlook across Asia.
- Local currency strength adds to return potential.

EM DEBT – HARD CURRENCY



- Despite tight spreads, the valuation backdrop remains favorable on a total-yield basis.
- Watch for the impact of global risks, ranging from Trump 2.0, to geopolitics, to China's structural headwinds.

EM DEBT – LOCAL CURRENCY

- The USD has been weak, particularly post-Liberation Day, supporting EM currencies.
- Fundamentals have been supportive of local duration, with inflation back to target and external positions strong.

MFS CONSIDERATIONS

EM Equity

- Valuations remain attractive across many markets.
- Earnings upside is broadening, led by tech and materials.
- LATAM offers selective opportunities as geopolitics, rate cuts and political shifts create dispersion.

EM Debt – Hard Currency

- Contrary to initial concerns, EM debt has shown remarkable resilience since Trump's election.
- Fund flows have been positive, supporting tight valuations.
- However, given significant risks, country selection will be key.

EM Debt – Local Currency

- Real rate differentials with DM provide opportunities to add duration.
- Given the more tactical nature of the asset class, watch the risk appetite backdrop.

UNDERWEIGHT NEUTRAL OVERWEIGHT

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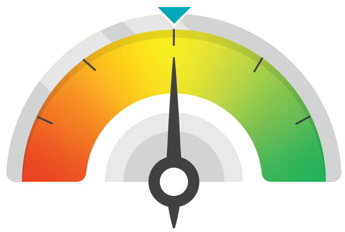
Global Fixed Income
USD based

USD DURATION



- Slower economic growth and concerns around a weakening labor market are offset by forecasts of weaker inflation.
- However, the impact of tariffs may put pressure on core goods and the Fed's mandate.
- Bias is skewed towards modest further easing from here.

EURO DURATION*

- The ECB has completed its cutting cycle, leaving current valuations uncompelling.
- Enthusiasm for fiscal spending packages in some countries is being offset by budget battles in others.
- Defense and infrastructure-related spending should be a tailwind to growth.

MFS CONSIDERATIONS

- Staying neutral as the macro backdrop is tilted towards being duration supportive.
- Amid increased focus on labor data, payrolls and jobless claims will be key data points to monitor.

- Reduced our rating, mainly reflecting mixed macro data and relative valuation to the US.
- If growth slows meaningfully, we believe the ECB will resume cutting, supporting duration.

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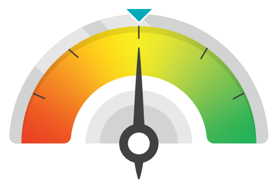
Global Fixed Income
USD based

US IG CORP

- Fundamentals remain respectable due to recent margin and free cash flow improvements.
- Spreads remain near historical tights.
- Robust fund flows help support rich valuation.

US HIGH YIELD



- Fundamentals are robust; leverage and interest coverage remain near long-term averages.
- Other positive drivers include low default rate projections, strong fund flows and a supportive macro outlook.
- However, spreads are currently at their tightest levels since 2007.

EURO IG CORP

- Sound fundamentals and robust technicals are supportive of tight valuations.
- European fiscal expansion should benefit sectors such as defense and utilities.
- Spread valuations have compressed to near record tights.

EURO HIGH YIELD

- Fundamentals have softened, but from a strong base.
- Looser monetary policy should help offset further fundamental deterioration.
- Increasing European credit growth is a tailwind for sticky spread valuations.

MFS CONSIDERATIONS

- With monetary policy tilted towards additional rate cuts, we remain favorable on US IG.
- Relative to high yield, IG credit's higher duration will benefit from any rate cuts.
- With spreads tight, we have an up-in-quality bias.

- The risk-return proposition with spreads richly valued leaves us neutral.
- Preference for sectors such as financials while steering away from secularly-challenged industries.
- Dispersion is low, so security selection is key.

- Yield valuations remain compelling despite time spreads.
- The macro outlook of modest growth but low inflation is a healthy environment for IG credit returns.
- Favorable on the defensive nature of IG vs. high yield, given valuations.

- Strong technicals and modest fundamentals are offset by tight spreads.
- Continued preference for up-in-credit-quality like other asset classes.
- Preference for US high yield vs. Europe, given a larger idiosyncratic opportunity set.

UNDERWEIGHT NEUTRAL OVERWEIGHT

For additional information or analysis, please contact your dedicated MFS team or visit mfs.com

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