August-September 2026

Global Market Pulse

USD based

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

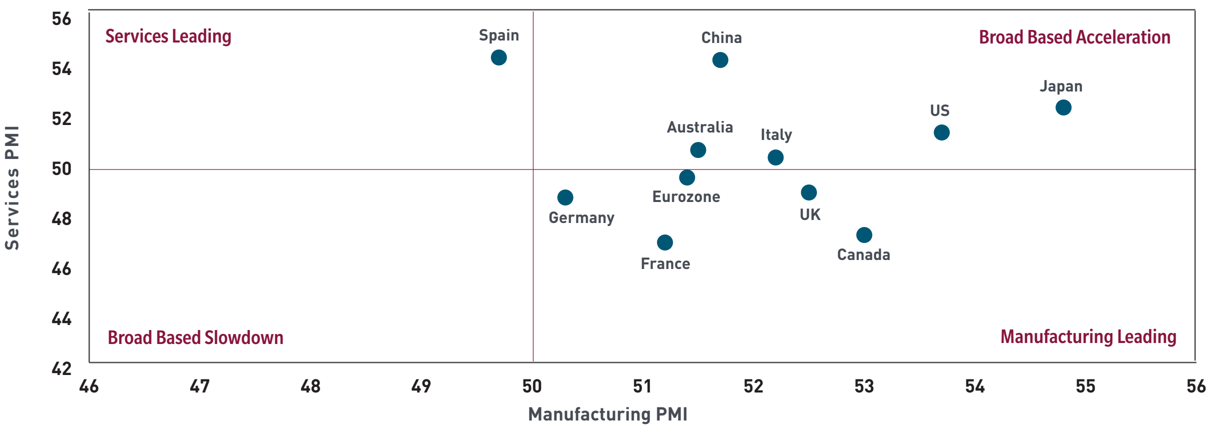
Market Insights Team

KEY TAKEAWAYS

- AI-driven capex remains the central growth engine. The AI investment cycle is supporting manufacturing, semiconductors, power infrastructure, automation, and earnings expectations across the US, Europe, Japan, and emerging markets.
- Within emerging markets, opportunities are increasingly within specific local markets, not simply across regions. Earnings breadth is improving, valuation dispersion remains wide, and active selection appears especially important across equities and credit.
- In fixed income, sticky inflation, more hawkish rate expectations, renewed Iran-related uncertainty, and tight credit spreads argue for selectivity rather than broad risk-taking.

Economy & Markets

THE MANUFACTURING COMEBACK TOUR



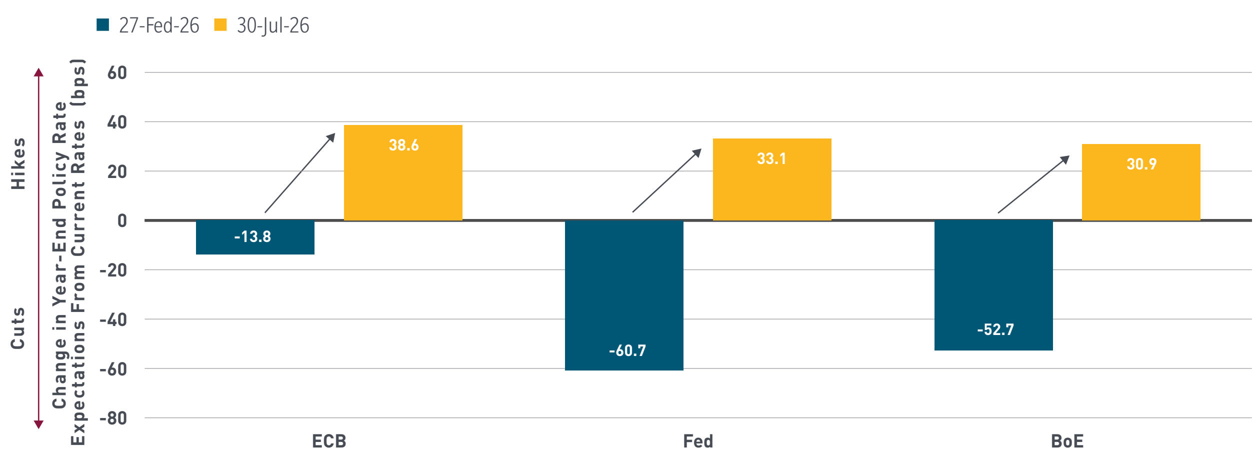
Source: Bloomberg, S&P Global. Data as of 30 June 2026. PMI = Purchasing Managers' Index.

Global Growth Broadens Beyond Services

MFS PERSPECTIVE

- Global growth remains firmly expansionary and increasingly supported by a manufacturing revival.
- AI is driving a new capex cycle, boosting demand for chips, power infrastructure, automation, and industrial equipment.
- Higher global defense spending is also reinforcing investment in manufacturing capacity and supply chains.

FROM DOVES TO HAWKS: RATE EXPECTATIONS IN A VOLATILE WORLD



Source: Bloomberg, as of 27 February 2026 and 30 July 2026. Bars show market-implied year-end policy rate levels (in basis points) for each central bank, as priced on 27 February 2026, and sum of actual policy rate changes since 27 February 2026 and market-implied year-end policy rate levels as of 30 July 2026.

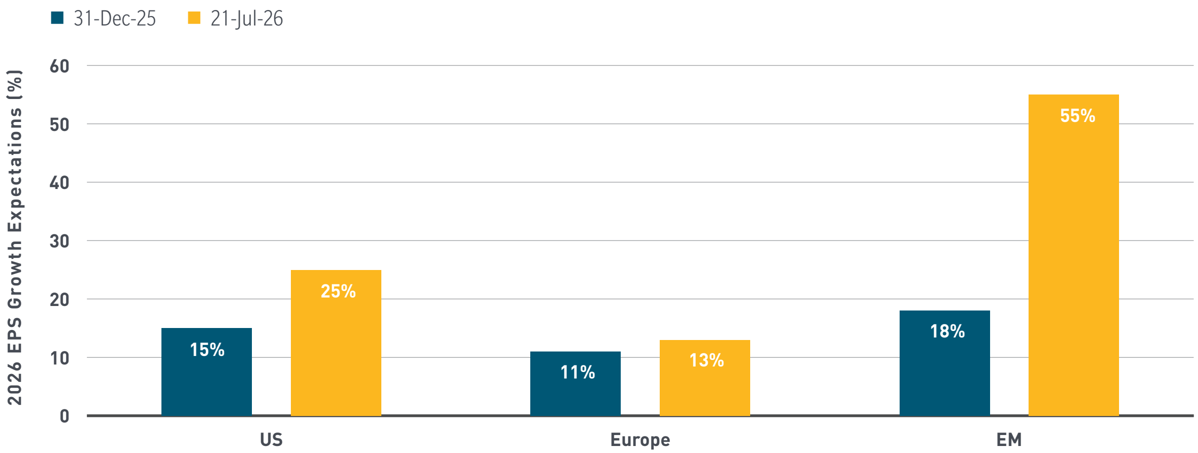
Year-End Rate Expectations Have Risen Above Pre-War Levels

MFS PERSPECTIVE

- Despite some recent easing, inflation remains above target as persistent geopolitical tensions cloud the outlook.
- The ECB has tightened policy amid stubborn inflation pressure, reflecting its singular focus on price stability.
- Under new leadership, the Fed is retreating from forward guidance, increasing policy uncertainty.

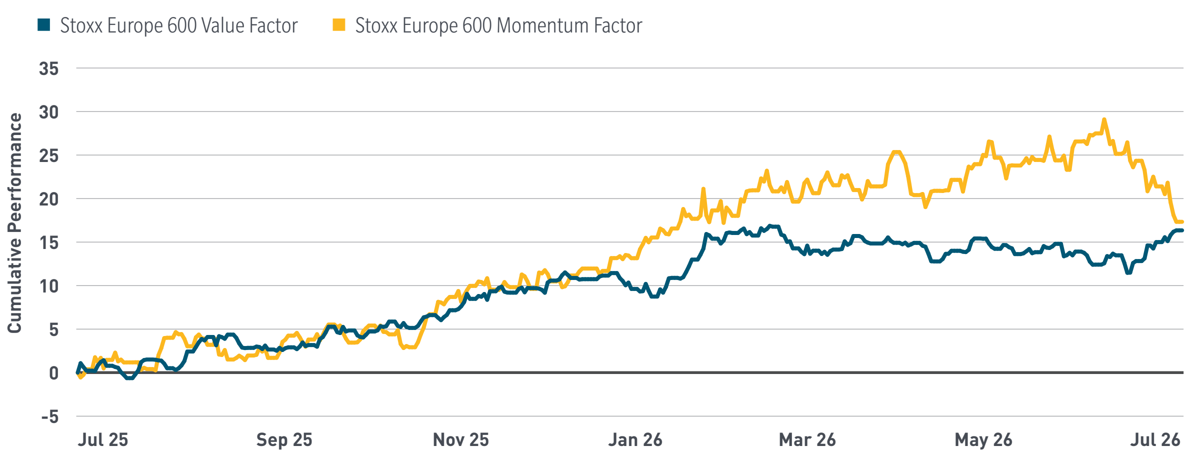
Economy & Markets

2026 EPS GROWTH EXPECTATIONS HAVE INCREASED



Source: FactSet Market Aggregates. 2026 EPS Growth Expectations as of 31 December 2025 and 21 July 2026. US = S&P 500, Europe = MSCI Europe, EM = MSCI Emerging Markets. EPS is in USD.

MOMENTUM FADES AFTER A STRONG RUN



Source: Bloomberg. Daily data from 1 July 2025 to 19 July 2026. Factor returns are based on equal weighted STOXX Europe 600 index, are sector neutralized and are net long-short (high-low). Returns are in EUR.

Stronger Earnings Outlook Supports Equities

MFS PERSPECTIVE

- 2026 EPS growth estimates have inflected upward, reflecting fiscal tailwinds and a strong AI investment cycle.
- EM earnings expectations have tripled amid robust demand for semiconductors and hardware.
- Non-US equities continue to offer strong EPS expectations with attractive valuations relative to US equities.

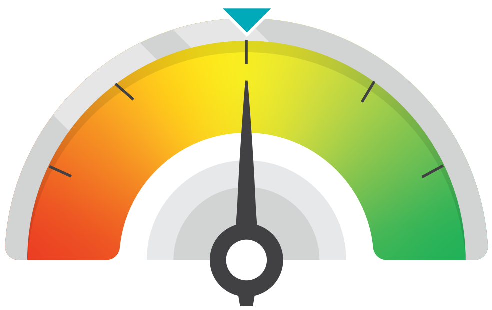
Value Revives As Momentum Loses Steam

MFS PERSPECTIVE

- AI beneficiaries and semis powered the momentum trade, supporting risk appetite through much of the year.
- Despite energy rising, value lagged post the US–Iran conflict, though it has started to recover as risk and momentum faded.
- The rotation reinforces why value and momentum can work together, each leading at different points in the cycle.

US Equity
USD based

US



UNDERWEIGHT NEUTRAL OVERWEIGHT

- AI capex remains the primary driver of earnings growth in the US.
- Improving earnings breadth continues to be supported by AI infrastructure spending.
- With the reignition of the US–Iran conflict, policy and macro uncertainty remain risks.
- We continue to favor mid- and large-cap equities within the US.

MFS CONSIDERATIONS

LARGE CAP

- Earnings beat rates are at multi-year highs, with financials, energy, and materials providing meaningful contributions to headline earnings growth.
- Despite broadening earnings growth, the scale of growth continues to be concentrated in AI-adjacent technology.

SMALL/MID CAP

- Earnings revisions and growth expectations continue to accelerate higher.
- Within SMIDs, mid-caps trade at a meaningful valuation discount relative to large and small cap peers.

GROWTH

- Despite strong earnings results, concerns remain regarding the levels of capex spending from hyperscalers and whether future cash flows from these investments will be sufficient.
- Improving earnings breadth should provide opportunities outside of the megacaps.

VALUE

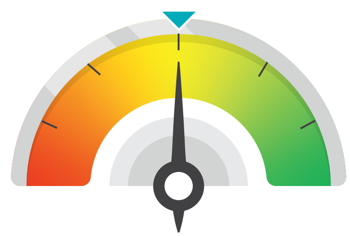
- Strong earnings from cyclical value sectors are supporting broader market participation.
- Valuation discounts remain attractive, but investors should focus on companies with high-quality earnings and balance sheets to take advantage of relative opportunities.

Global Developed Equity – Ex US
USD based

EUROPE EX UK

- Earnings are improving as manufacturing stabilizes and AI demand broadens.
- Fiscal, defense, and infrastructure spending is lifting investment across more sectors.
- Valuations remain supportive, though renewed Iran risk warrants caution.

UK



- A new prime minister is in place, but global growth and rates still drive UK equities more than politics.
- Inflation weighs on sentiment, but earnings remain resilient.
- Valuations remain attractive amid subdued investor interest.

JAPAN

- Nominal growth, wages, and inflation signal a shift from the deflationary past.
- Manufacturing, automation, and tech are aided by global capex and AI spend.
- Earnings are increasingly driven by fundamentals, not currency alone.

MFS CONSIDERATIONS

Europe ex UK

- We favor firms tied to capex, automation, electrification, and power infrastructure.
- High valuation dispersion supports active stock selection across regions and sectors.
- Resilient earnings, pricing power, and balance sheet strength may offset macro sensitivity.

UK

- Wide valuation discounts may offer upside where fundamentals prove resilient.
- Global revenue exposure may help offset softer domestic activity.
- M&A interest continues to highlight the gap between public prices and private views of value.

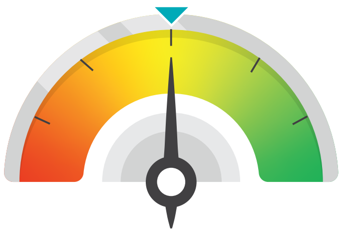
Japan

- Corporate profitability and shareholder focus remain supportive of earnings growth.
- Opportunities extend beyond exporters as wages and domestic demand improve.
- Performance is increasingly tied to company fundamentals, not broad macro trends.

UNDERWEIGHT | NEUTRAL | OVERWEIGHT

Emerging Markets
USD based

EM EQUITY



- Earnings remain strong, supported by semis and AI.
- Manufacturing activity and global capex continue to support export-oriented markets.
- Investors are watching whether strong tech earnings broaden across sectors and regions.

EM DEBT – HARD CURRENCY

- Emerging markets' increasingly developed fiscal and monetary frameworks leave fundamentals structurally stronger than in prior cycles.
- Yield remains attractive, but spreads are hovering just above all-time tights, leaving valuations rich.

EM DEBT – LOCAL CURRENCY

- Iran-driven currency weakness has been a setback to otherwise strong recent returns.
- Longer-term headwinds to the dollar have not disappeared; the recent bounce in the greenback may provide a good entry point.

MFS CONSIDERATIONS

EM Equity

- Technology supply chains remain key beneficiaries of AI-related spending.
- Greater differentiation across countries and sectors may create a wider opportunity set, while energy-dependent countries face the return of higher energy prices.

EM Debt – Hard Currency

- EM has been remarkably resilient amid ongoing geopolitical risk.
- However, the longer duration of the asset class may be a headwind if inflation picks up.
- We prefer shorter-duration asset classes like high yield for return-seeking fixed income.

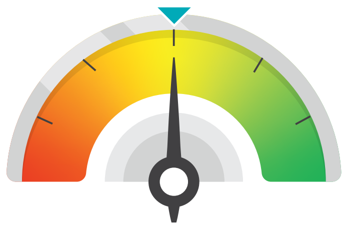
EM Debt – Local Currency

- A more tactical asset class by nature, swings in risk sentiment and global rate expectations can provide windows of strain and opportunity.
- While the risk of sticky US inflation pushing the dollar higher remains, our outlook stays positive.

UNDERWEIGHT NEUTRAL OVERWEIGHT

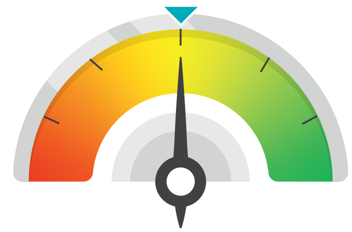
Global Fixed Income
USD based

USD DURATION



- Despite softer June figures, inflation remains sticky and above target, while renewed US–Iran tensions pose upside risks.
- Markets have shifted from pricing Fed cuts to being biased toward future hikes.

EURO DURATION*



- Despite ongoing geopolitically driven inflation uncertainty, June's hike has improved the outlook for duration as the extent of any further ECB tightening remains unclear.
- Soft European growth may cap how much further the ECB can tighten and could open the door for cuts down the road.

MFS CONSIDERATIONS

- A more hawkish Fed and renewed geopolitical tensions risk putting upward pressure on long-term yields.
- Treasuries still offer risk-off protection should growth weaken and investment sentiment deteriorate.
- With ongoing inflation uncertainty, the ECB will likely stress policy path flexibility and a meeting-by-meeting approach to future interest-rate decisions.

UNDERWEIGHT NEUTRAL OVERWEIGHT

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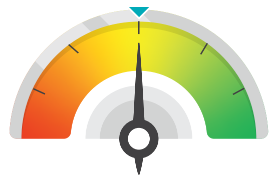
Global Fixed Income
USD based

US IG CORP

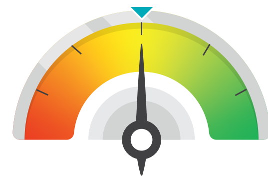
- Corporate fundamentals remain solid, with healthy balance sheets, record earnings, and attractive yields supporting demand.
- Spreads remain tight; geopolitical tensions and elevated AI-related issuance are key risks.

US HIGH YIELD



- All-in yields above 7% remain attractive, while spreads have largely recovered from their geopolitically driven widening.
- Credit fundamentals remain strong, with higher-quality borrowers supporting resilience.

EURO IG CORP



- Fundamentals remain resilient, with upgrades outpacing downgrades and earnings holding up despite weak growth.
- Tight spreads and higher energy prices keep the backdrop challenging, limiting the appeal of EUR IG versus higher-yielding alternatives.

EURO HIGH YIELD

- Carry and short duration continue to support European HY, while manageable net supply underpins technicals.
- Fundamentals have softened, particularly among lower-rated issuers, but not enough to materially alter the default outlook.

MFS CONSIDERATIONS

US IG Corp

- Broadening AI-driven growth is supportive of risk and less defensive positioning.
- However, with spread valuations less compelling, active security selection is increasingly important.

US High Yield

- Higher-quality, shorter-maturity HY issuers appear more attractive, while pockets of stress in lower-rated issuance reinforce the need for selectivity.
- Improving technicals since May have provided additional support for the asset class.

Euro IG Corp

- A higher-inflation, slower-growth backdrop favors active security selection and strong risk management.
- The market has absorbed heavy issuance well, but sustained supply could become a headwind if investor demand softens.

Euro High Yield

- We are most cautious on European high yield, where valuations offer limited compensation for the risk.
- Lower-quality issuers remain most exposed to further escalation; active security selection is key as dispersion rises.

UNDERWEIGHT | NEUTRAL | OVERWEIGHT

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