

May–June 2026

Market Pulse

Perspectives on trends shaping the markets

Key Themes / Economy and Markets / Equity / Fixed Income / Industry Flows

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Key Themes

NAVIGATING GEOPOLITICAL RISKS

Geopolitically driven oil price spikes typically don't last long

Moreover, the US economy is now less energy intensive, so oil shocks may be less damaging than in past cycles.

THE YEAR OF GLOBAL POLICY STIMULUS

S&P 500: +30% 1yr after peak economic uncertainty in 2025¹

While uncertainty will always be with us, markets have historically rewarded investors after periods of peak policy uncertainty.

THINK GLOBAL, INVEST GLOBAL

Non-US equities trade at a 31% discount to the US²

We believe the case for global diversification remains robust. While the US market offers a compelling investment opportunity, amid rich valuations, investors may find attractive opportunities outside the US.

CORPORATE CREDIT TO PARTY LIKE IT'S 1996

Credit spreads tighter today than a year ago

US credit has shown remarkable resilience. This has been the result of a strong macro backdrop, robust credit fundamentals, and healthy earnings. With spreads so tight, an active approach and disciplined security selection are essential.

READ OUR 2026 KEY THEMES BELOW

[VIEW THEMES](#) 

Source: ¹FactSet, S&P 500 1-year return from 13 April 2025 to 13 April 2026. Return is gross and in USD. 2025 Economic Policy Uncertainty Index peak was as of April 2025. ²FactSet as of 31 March 2026. Valuation discount = MSCI ACWI ex-US Forward P/E divided by S&P 500 minus 1. Forward P/E is next-twelve-months.

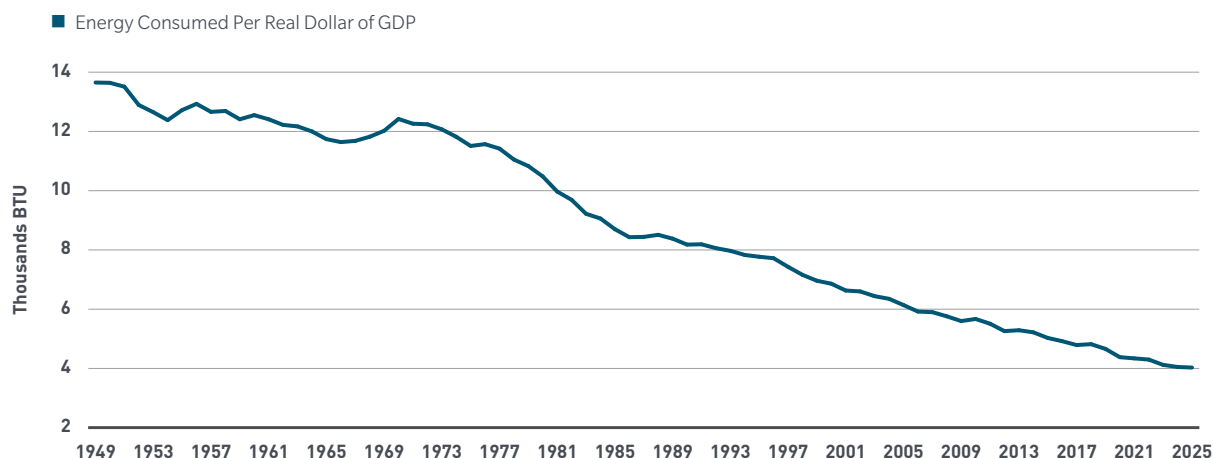




Economy and Markets

NAVIGATING GEOPOLITICAL RISKS

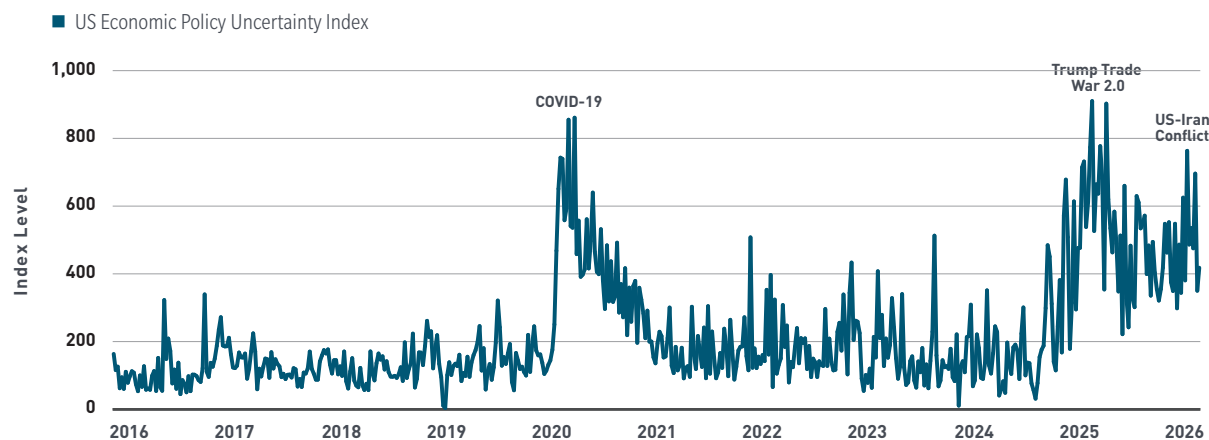
US Requires Less Energy to Run the Economy



Source: U.S. Energy Information Administration, March 2026 Monthly Energy Review. Annual data from 1949 to 2025.

THE YEAR OF GLOBAL POLICY STIMULUS

Economic Policy Uncertainty: Elevated Once Again



Source: Bloomberg. Weekly data from 31 December 2016 to 19 April 2026.

Today's US economy is less energy intensive

- Oil shocks are less debilitating to the US economy today than in the past.
- Past shocks, like the ones in the 1970s, came at a time when manufacturing was responsible for a much larger share of GDP than today.
- The shift toward a service-based economy has enabled the US to consume less energy for each unit of GDP.

US equities historically rallied following high uncertainty

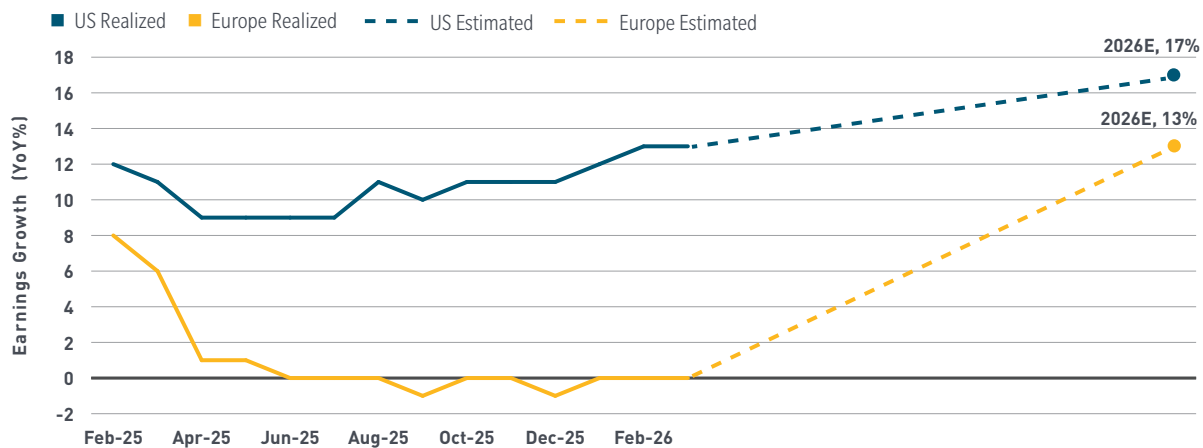
- After peaking in April 2025, economic uncertainty was followed by nearly a 30% one-year return for the S&P 500.
- Easing uncertainty tends to lead to a renewed surge in risk appetite and a rally in equity markets.



Economy and Markets

THINK GLOBAL, INVEST GLOBAL

Converging Earnings Growth: US vs. Europe



Source: FactSet Market Aggregates. Solid lines represent 2025 earnings YoY%, with final 2025 EPS reported on 27 February 2026. 2026E are based on mean consensus estimates. Monthly data as of 28 February 2025 to 31 March 2026. US = S&P 500. Europe = MSCI Europe. Each country EPS is in local currency (S&P 500 in USD and MSCI Europe in EUR).

CORPORATE CREDIT TO PARTY LIKE IT'S 1996

US Investment Grade Credit Spreads Have Remained Resilient



Source: Bloomberg. Daily data from 1 October 2025 to 15 April 2026. US Investment Grade = Bloomberg US Corporate Bond Index. OAS = Option-Adjusted Spread.

European earnings growth looks to close gap with US

- European earnings growth is expected to meaningfully improve in 2026.
- Ongoing fiscal spending is boosting demand visibility and supporting industrial activity.
- The US–Europe valuation discount has room to close.

Credit spreads are tighter today than pre-conflict

- Credit spreads have broadly shrugged off any conflict risk.
- Pre-conflict, US IG spreads hovered around 84 bps, widened to 93 at the height of the crisis, and have tightened to below 80 today.
- We believe a robust earnings outlook and strong corporate fundamentals have helped offset geopolitical concerns for credit markets.



Equity

Asset Class Views

Spotlight

◆ US

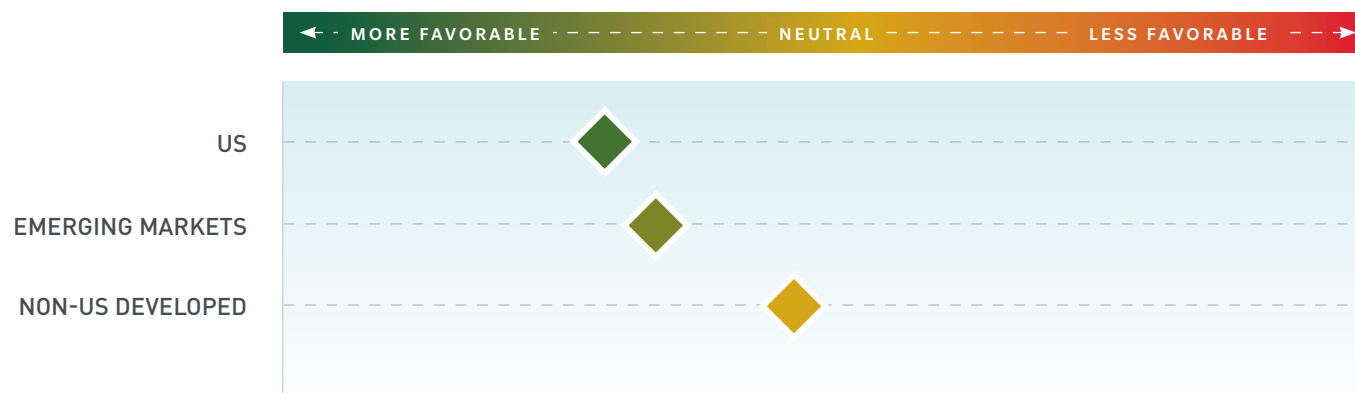
- Fundamentals →
- Earnings Revisions ↑
- Macro →

Fiscal stimulus from the One Big Beautiful Bill Act and a **resilient US consumer** continue to support strong earnings growth.

Market participation has improved year-to-date amid broadening earnings.

Many companies are poised to benefit from **AI infrastructure build-out**.

Persistent **performance dispersion** should offer a better environment for active management.



◆ Emerging Markets

AI and digital spend continue to drive EM tech earnings, while demand for commodities, power and infrastructure supports exporters.

Some countries face pressure from the Iran crisis, so it pays to be selective as opportunities broaden across sectors.

◆ Non-US Developed

Europe’s energy/commodity sensitivity remains a near-term headwind, but earnings expectations and stock dispersion are tailwinds.

Japan continues to benefit from AI/semis strength and improving corporate governance.

We stay positive, though more favorable toward US and EM.

Approach and methodology: The Market Pulse provides an outlook over a 12-month investment horizon for major asset classes as well as considerations of the prevailing market conditions. Views are driven by both quantitative and qualitative inputs, including, but not limited to, macroeconomic data, valuations, fundamentals and technical variables. The views expressed herein are those of the MFS Strategy and Insights Group within the MFS distribution unit and may differ from those of MFS portfolio managers and research analysts. These views are subject to change at any time and should not be construed as MFS’ investment advice, as securities recommendations, as portfolio positioning, or as an indication of trading intent on behalf of MFS. No forecasts can be guaranteed.



US Equity Asset Class Views

Spotlight

◆ Small/Mid-Cap

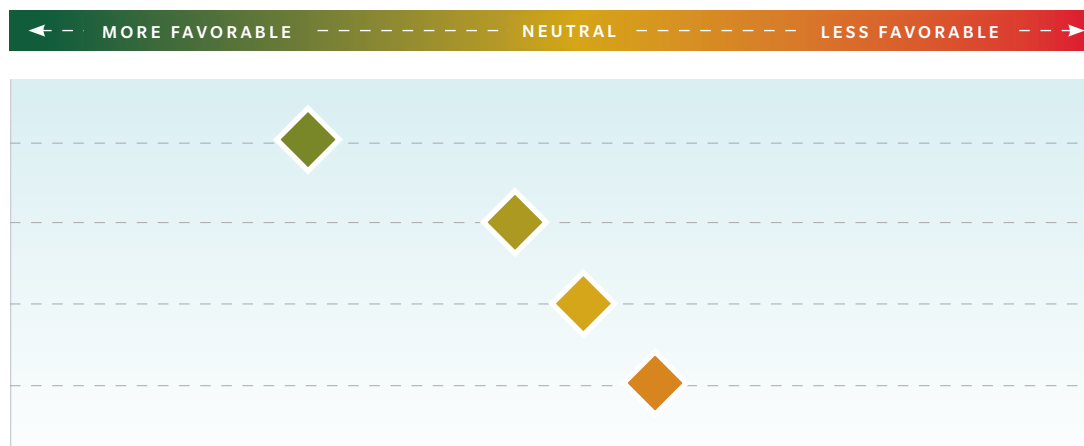
- Fundamentals ↑
- Earnings Revisions →
- Macro →

SMID caps have rallied year-to-date, led by high beta, narrowing the valuation gap with large caps.

The **earnings outlook** for SMIDs has seen meaningful improvement.

We prefer **mid-caps over small caps**, given their valuation discount and improving EPS growth.

SMALL /MID-CAP
GROWTH
LARGE CAP
VALUE



◆ Growth

Despite a recent pullback in valuations, expectations remain high, and growth stocks will have to deliver on earnings.

Market perceptions of AI winners and losers have widened the performance gap across and within sectors, especially technology.

◆ Large Cap

Market breadth returned in the first quarter with close to half of S&P 500 stocks outperforming the index.

Earnings are robust, but valuation and concentration remain risks.

We continue to favor large and mid-cap stocks over small caps.

◆ Value

The valuation gap between value and growth has narrowed but remains wide.

2026 earnings estimates have been revised upward year-to-date, supported by the macro backdrop and AI capex spend.

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Fixed Income

Asset Class Views

Spotlight

◆ US Investment Grade

Fundamentals ↑

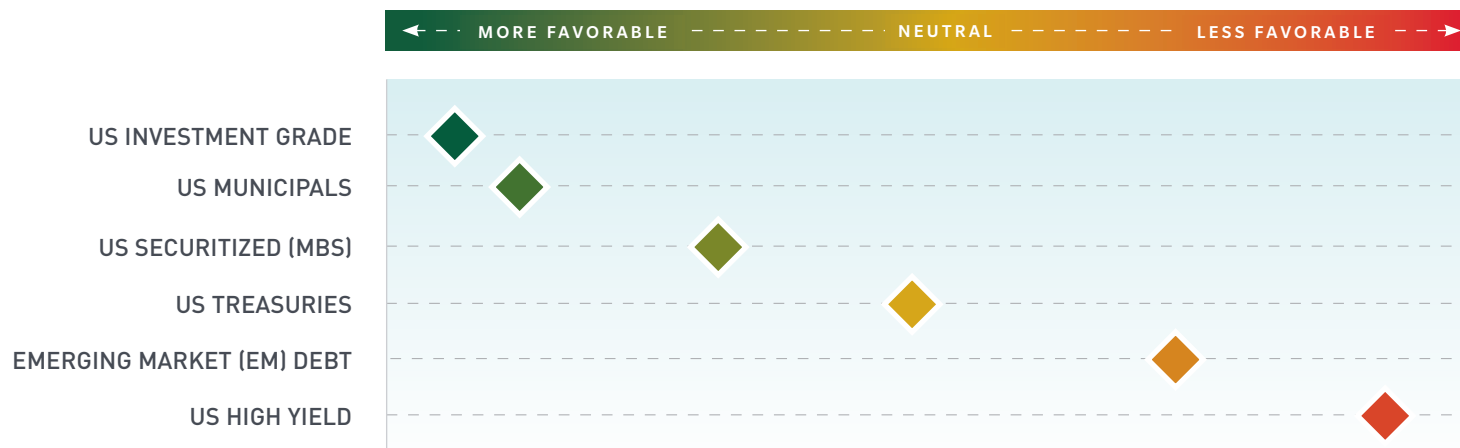
Technicals →

Valuations ↓

Corporate fundamentals are robust, **profit margins** remain elevated, and **free cash flow generation** has been increasing.

The **recent earnings season** has seen a 4 to 1 ratio of earnings beats to misses, despite geopolitical uncertainty.

Spreads remain tight, but support US IG well versus purely rate-driven asset classes.



◆ US Municipals

Valuations have become more attractive, with tax-exempt yields back above 3.6%.

Fundamentals have benefitted from strong growth in state tax receipts, and robust fund flows are helping absorb a wave of heavy issuance.

◆ US Securitized (MBS)

Mortgage yields have risen, while spreads remain historically tight.

Technical were strong, supported by \$200B in GSE buying of MBS amid limited issuance.

Going forward, technicals may soften while valuations are rich.

◆ US Treasuries

Higher rates driven by the Iran conflict makes valuations more compelling, supportive of duration and US Treasuries.

Technical remain reasonable as investor appetite for dollar assets seems to have rebounded.

◆ EM Debt

Despite several EM countries being at the center of the Iran conflict, spreads are tighter than pre-conflict levels.

Current spreads do not seem to compensate investors for the elevated uncertainty, leaving us cautious on the asset class.

◆ US High Yield

Geopolitical uncertainty hurt sentiment, driving recent negative fund flows.

After early widening, spreads are now tighter than pre-conflict levels.

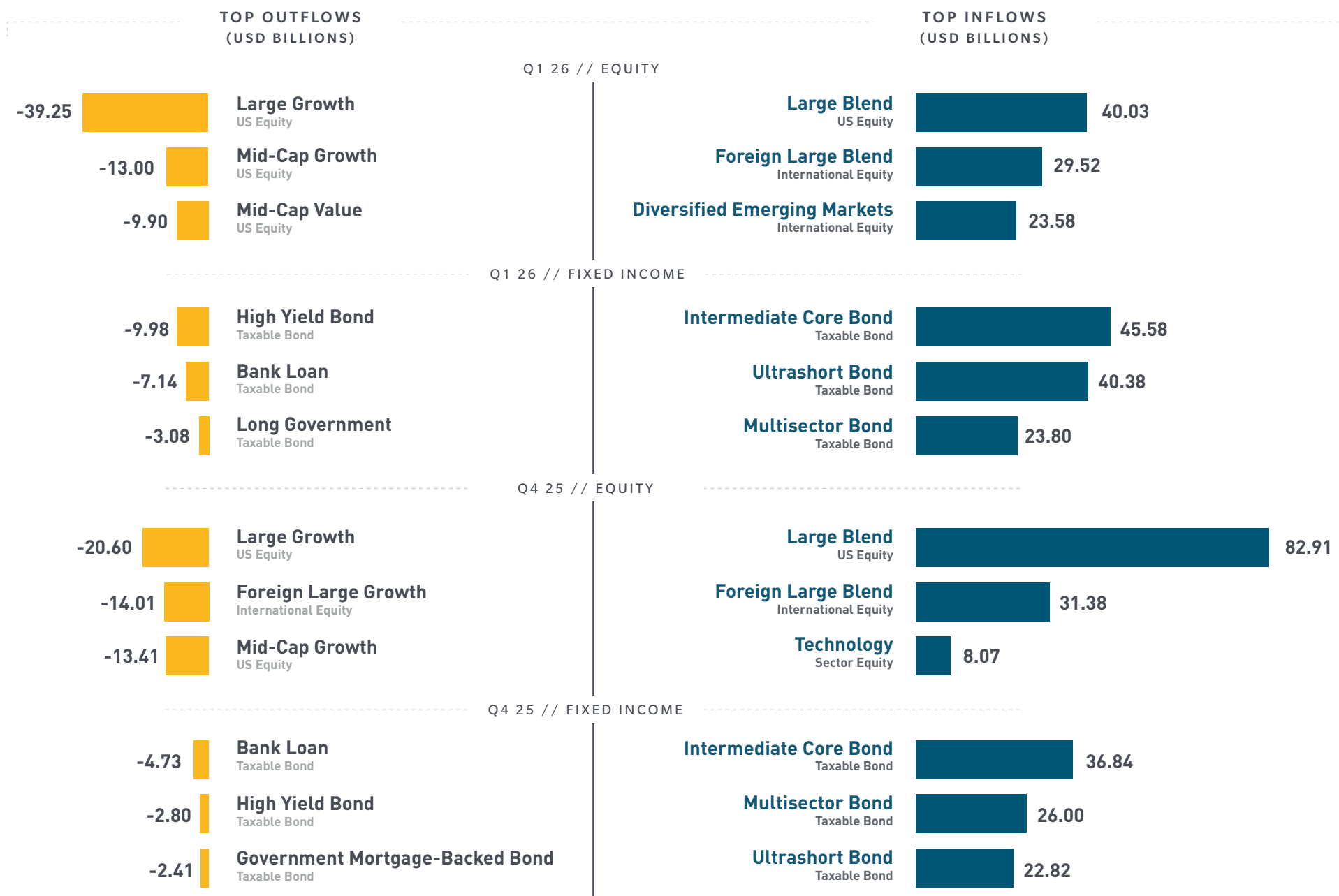
With valuations rich and technicals weak, we favor IG over HY.

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Industry Flows

Money in motion by Morningstar category



Source: ISS Market Intelligence, Simfund. Q1 2026 is trailing three months from 31 December 2025 to 31 March 2026, Q4 2025 is trailing three months from 30 September 2025 to 31 December 2025.

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