MFS® Investment Management

PORTFOLIO PERSPECTIVES

Practical applications for asset allocators // Q3 2026

Portfolio Perspectives

Practical applications for asset allocators

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Source: [1]Bloomberg as of 19 July 2026. Oil prices = Brent Crude. [2]FactSet. Daily data from 1 January 2026 to 30 June 2026. Global equities = MSCI ACWI, US equities = S&P 500, non-US developed equities = MSCI EAFE. Returns are gross for US and net for Non-US, and in USD. [3]FactSet. Daily data from 1 January 2026 to 30 June 2026. Emerging market equity = MSCI Emerging Markets. Returns are net and in USD. [4]FactSet. Daily data from 1 January 2026 to 30 June 2026. Returns are gross and in USD.

SUMMARY

In this quarter's edition of Portfolio Perspectives, we cover key topics facing asset allocators today:

- Public Markets Fueling the AI Buildout
- Changing Leaders in Emerging Markets Equity
- Diversifying with International Large-Cap Value
- How EMD Can Fit into Portfolios

Tensions in the Middle East have remained unstable, with on again off again terms of a ceasefire. While risk of growing conflict remains, the modest progress toward peace has somewhat alleviated concerns over a worst-case scenario playing out. With some traffic flowing through the Strait of Hormuz, **oil prices** plummeted more than 20%, easing concerns of prolonged inflationary pressure from higher energy prices.[1] However, Iran's desire to retain some semblance of control over the Strait appears to be a risk unlikely to subside anytime soon.

Global equities finished the first half of the year with incredibly strong performance, up more than 10%, with similar performance from both US and non-US developed equities.[2] **Emerging markets equity** has been the surprise leader, rising more than 22% in the first half as AI-related semiconductor and memory chip demand benefited several manufacturers in Taiwan and South Korea.[3] In the US, the **Magnificent Seven** continue to lag the broader market, posting flat returns through midyear as capital expenditures continue to rise and fundraising continues in both equity and fixed income markets. This dynamic has contributed to the widening of the performance differential between the Russell style indexes with the **Russell 1000® Value** outperforming the **Russell 1000® Growth** by more than 10% year to date.[4] The Value index has benefited from the rise in US semiconductor and memory chip companies as well as strength in the energy and basic materials sectors. However, after a stellar run in the first half of the year, several of the chip companies are now migrating to the Russell 1000® Growth index, so future strength in these names may accrue to the Growth index.

Fears of a **"SaaS-pocalypse"** have subsided somewhat, although some names remain at risk of AI disruption. So, selectivity in software will be key as some single-service providers, in particular, may face obsolescence. However, investors are increasingly questioning both the costs and risks of developing, integrating, and maintaining mission-critical data of record outside of purpose-built software.

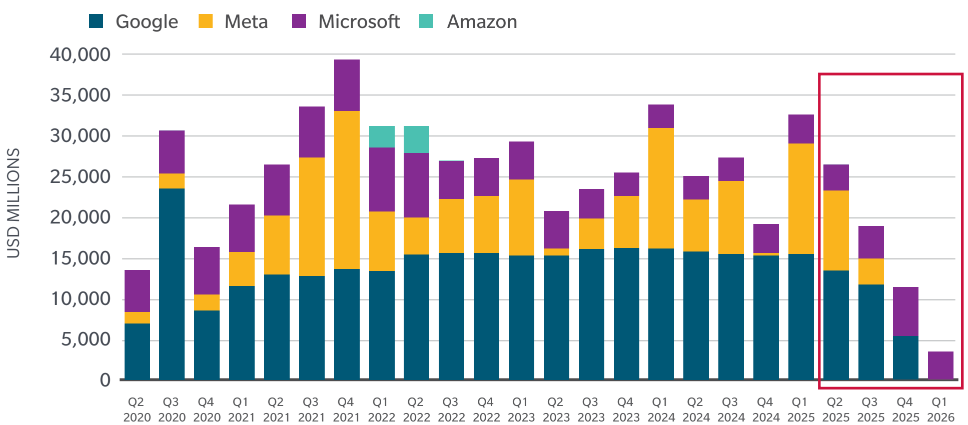
New **Fed Chair Kevin Warsh** struck a new tone in his first press conference, making it clear that he will be taking a far different approach than former Chair Jerome Powell. Investors should expect much less signaling and opinion-sharing with the fading of forward guidance and economic projections. This reduced transparency appears likely to introduce greater volatility into fixed income markets, as investors are left with fewer tools with which to estimate possible Fed actions. Futures markets moved from expecting two rate cuts in 2026 at the start of the year to now expecting a single rate hike as inflation remains well above the Fed's target. As mentioned last quarter, considering our expectations of a **"higher-for-longer"** rate environment, investors should focus on carry as the primary contributor to fixed income returns and be mindful of their duration positioning in rates markets.

Credit market spreads continue grinding tighter following their jump in the spring with both investment-grade and high-yield **spreads near multi-year lows**. The combination of strong investor demand and healthy corporate balance sheets has continued to buoy the market. Credit issuance of AI-related companies has accelerated as capex competition drives AI companies to tap all available markets to fund buildouts. Despite this massive issuance, credit markets have remained highly accommodative.

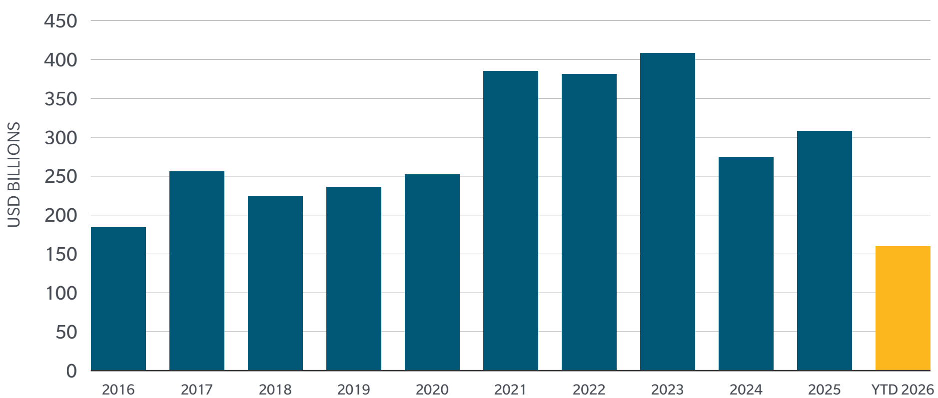
Public Markets Fueling the AI Buildout

Companies tapping public equity and fixed income markets

Buybacks on the Decline



US Private Equity Fundraising



Source: Top chart – Bloomberg. Quarterly data from 30 June 2020 to 31 March 2026 (latest available). Bottom chart – Wall Street Journal, Pitchbook, "Private Equity Firms Are Sitting on Nine-Year Backlog," 7 July 2026. Annual data from 2016 to 2025. YTD 2026 through 30 June 2026.

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THE AI BUILDOUT

The buildout of AI infrastructure is expected to require far more capital than markets anticipated just months ago. Industry estimates now project roughly $2.5 trillion in capital expenditures over the next three years across datacenters, advanced semiconductors, networking equipment, and energy systems. What is notable is not simply the scale of spending, but the urgency behind it. Competition within AI has intensified as companies race to establish early market share and model dominance. Many management teams appear increasingly focused on the long-term earnings potential from owning a dominant position in AI ecosystems rather than near-term profitability.

That shift is already changing corporate capital allocation strategies. Large technology companies that previously prioritized returning cash to shareholders through buybacks and dividends are increasingly reallocating capital toward AI investments and funding those efforts through public equity and fixed income issuance. Competitive dynamics are also becoming more acute, with several top AI firms offering free or heavily subsidized compute to attract developers and enterprise customers. This strategy resembles earlier platform wars in technology: acquire users and embed technology into workflows first, monetize later.

THE APPEAL OF PUBLIC MARKETS

This next phase of AI investment may reshape the role that public markets play in the overall AI buildout. Over the past two decades, the number of publicly traded companies steadily declined, with the Wilshire 5000 shrinking from approximately 5,000 stocks in 2005 to just over 3,400 at the beginning of this year. Structural trends that contributed to this decline included higher institutional allocations to private equity, which provided funding that enabled companies to remain private for longer; increased mergers and acquisitions by large technology firms that absorbed emerging companies before they could go public; and growing regulatory burdens and costs associated with public listings. Investors seeking exposure to certain pockets of innovation increasingly had to access it through private markets rather than public equities. That trend may now be starting to reverse, with private equity fundraising weakening, as illustrated in the bottom chart. The trend is not just confined to the equity markets — issuance in publicly traded fixed income has also been on the rise as companies turn to US and non-US investment-grade markets for funds while the private debt market continues to wobble.

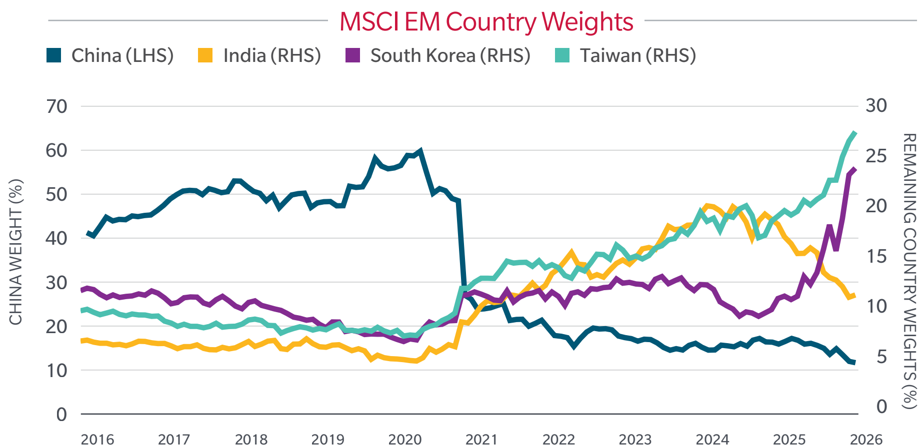
MORE LARGE IPOS AHEAD?

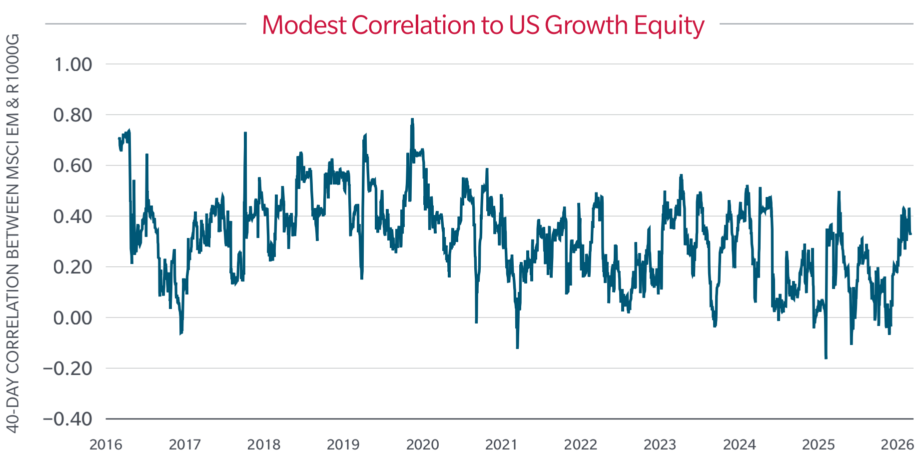
Recent public excitement around the SpaceX IPO may signal a broader trend ahead. The enormous capital demands of AI infrastructure could push more companies toward public markets, which offer access to a massive pool of global capital, greater liquidity, optionality through secondary offerings, and variable security structures, which can act as an additional talent recruiting tool.

Over the past decade, institutional investors such as pension funds, endowments, and foundations expanded heavily into private markets, diversifying away from traditional public equities in pursuit of higher returns. However, many are now recognizing that private investments may not be the panacea they expected. While private assets will remain important, public markets continue to offer unmatched size, liquidity, transparency, and scalability — advantages that are becoming increasingly valuable amid rapid technological changes and unprecedented capital needs. The AI era may ultimately require not just new infrastructure, but a renewed reliance on public markets to finance it.

Changing Leaders in Emerging Markets Equity

Significant changes in country and sector composition





Source: Top chart – FactSet. Monthly data from 30 June 2016 to 30 June 2026. Bottom chart – Bloomberg. Daily data from 5 May 2016 to 30 June 2026. R1000G = Russell 1000 Growth.

[1]FactSet. Daily data from 17 February 2021 (2021 peak) to 30 June 2026. Cumulative return is net and in USD. [2]FactSet as of 30 June 2026. Taiwan = MSCI Taiwan, Korea = MSCI Korea. **The information included 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.** [3]FactSet. Daily data from 1 January 2026 to 30 June 2026. Returns are net and in USD. Taiwan = MSCI Taiwan, Korea = MSCI Korea. [4]FactSet. As of 30 June 2026.

COUNTRY AND SECTOR COMPOSITION

Emerging market (EM) equities are undergoing a major shift as China and India lose prominence to the tech- and chip-focused markets of Taiwan and Korea. A decade ago, China's fast-growing economy and equity markets appeared unstoppable, with consumer discretionary, financials, and communication services as key market drivers. Similarly, India's renewed focus on economic growth, including privatization of businesses, smaller government, and liberalization of foreign direct investments sparked growth in infrastructure, technology, and real estate. In recent years, however, both countries' equity markets have come under pressure for various reasons. China has struggled with a property market downturn, rising US trade tensions, and restrictions on Chinese technology, leaving the MSCI China Index 40% below its 2021 peak.[1] The MSCI India has been more resilient but has largely traded sideways since mid-2024. In contrast, the massive demand for semiconductor and memory chips has been a tailwind for Taiwanese and Korean equity markets, reflecting their long-standing leadership in chip manufacturing.

MARKET CONCENTRATION

Market concentration is now not just a US phenomenon, it a characteristic of both the Taiwanese and Korean markets, as well. The MSCI Taiwan Index is 87% technology, with 55% in just one company, Taiwan Semiconductor.[2] Korea is not far behind, with 74% technology and just two companies, Samsung Electronics and SK Hynix, comprising more than 66% of the index.[2] These concentration levels can certainly introduce risk into portfolios, but the importance of these companies in the global technology supply chain cannot be overstated. Strong demand for chips and investor excitement have driven the Taiwan and Korea markets up nearly 62% and 119%, respectively, in the first half of the year.[3] While chip demand is expected to continue to be strong, investors should temper expectations of a repeat performance. That said, the overall MSCI Emerging Markets Index is still trading at a reasonable 12x forward twelve-month earnings.[4]

THE ROLE IN PORTFOLIOS

Compared with developed markets, EM equity returns are often less consistent, with about 20% greater volatility driven, in part, by less stable government policies and lower diversification across trading partners. However, the higher return potential and diversification benefits of EM equities can play an important role in portfolios, and for long-term investors, patience and methodical rebalancing can help turn that volatility into an advantage.

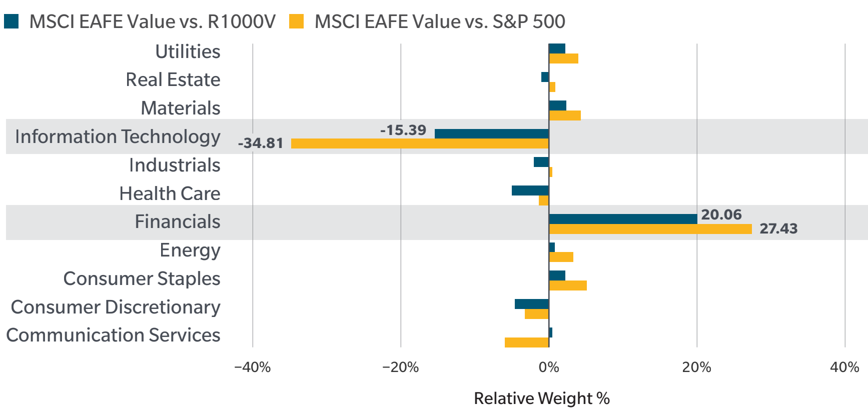
EM equities have been one of the best performing global asset classes since the start of 2025, largely supported by their greater exposure to semiconductors. Over the years, EM equities have become increasingly technology-focused, raising questions about whether they still provide diversification relative to the also tech-heavy US growth market. The answer lies in the increasing divergences in the different types of technology companies and their primary focus. For example, capital expenditures by US hyperscalers may become revenue for semiconductor manufacturers, helping explain why market strength has rotated from the hyperscalers to the chip makers in recent months.

In addition, EM equities can offer meaningful diversification benefits, particularly relative to US Growth equities. Over the past decade, their average correlation with US Growth has remained less than 0.40 and stayed under 0.50 for most periods, as shown in the bottom chart, despite the index's increasing technology exposure. Furthermore, considering that many investors have significant exposure to the US dollar, EM equities can also serve as a partial dollar hedge, contributing to the durability of an allocation to this asset class.

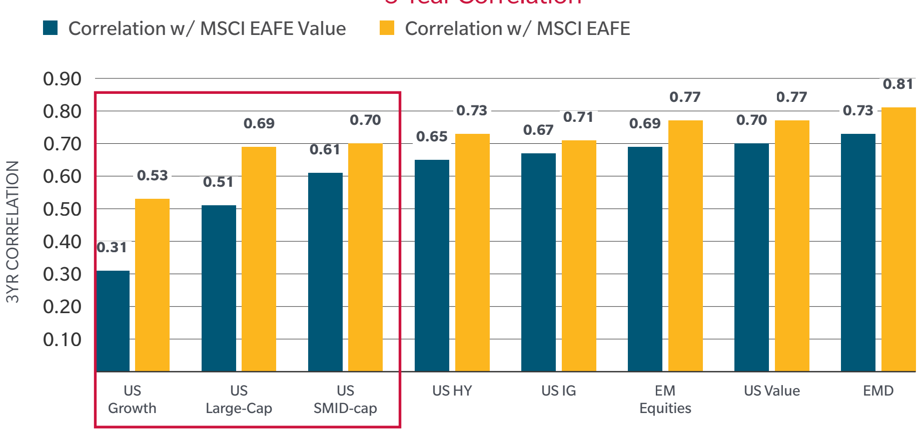
Diversifying with International Large-Cap Value

Investors may benefit from broader sector exposure and lower correlation to US equities

Relative Sector Weights



3-Year Correlation



Source: Top chart – FactSet Portfolio Analysis. As of 30 June 2026. R1000V = Russell 1000® Value. Bottom chart – FactSet SPAR. 3-year correlation calculated using monthly returns from 30 June 2023 to 30 June 2026. Returns are gross for US equities and fixed income, and net for non-US equities, and are in USD. US Growth = Russell 1000® Growth, US Large-Cap = S&P 500, US SMID-cap = Russell 2500®, US HY = Bloomberg US High Yield, US Investment Grade (IG) = Bloomberg US Credit Corporate, EM Equities = MSCI Emerging Markets, US Value = Russell 1000® Value, Emerging Market Debt (EMD) = J.P. Morgan EMBI Global.

[1] FactSet. Annualized return calculated using monthly data from 1 January 2000 to 31 December 2007. Relative annualized return = International value minus US large-cap. International value = MSCI EAFE Value, US large-cap = S&P 500. Returns are gross and in USD.

AN OVERLOOKED ASSET CLASS

For much of the past decade, rapid adoption of new technologies and subdued inflation expectations pushed investors toward long-duration growth equities. US large-cap equities — particularly tech-oriented companies — were the primary beneficiaries, while international equities lagged due to their heavier exposure to more cyclical sectors that remained out of favor. As capital increasingly became concentrated in US growth markets, international large-cap value became an increasingly overlooked asset class. Recently, however, market dynamics have shifted as technology spending turns to building physical assets and inflation and interest rates remain elevated. In fact, since the end of 2021, international large-cap value has outperformed both US and international core equities, in no small part due to 2025 and 2026 performance.

PERFORMANCE ACROSS MARKET CYCLES

Historically, international value has performed best during periods of higher inflation, rising interest rates, and stronger global growth, supported by its greater exposure to traditional value sectors such as financials, industrials, energy, and materials. These conditions contributed to extended periods of outperformance during the 1980s and early 1990s. By contrast, US growth equities have generally led during periods of falling rates, subdued inflation, and rapid technological innovation — particularly in the decade following the Global Financial Crisis, when accommodative monetary policy disproportionately benefited growth-oriented technology companies. Dollar strength, another hallmark of this period, can act as a headwind to international equities for US investors as foreign earnings lose relative value when converted to dollars.

The dot-com era offers a particularly relevant parallel to today's environment as investors concentrated heavily in a narrow group of high-growth technology companies amid rapid innovation and strong market momentum. However, leadership shifted meaningfully following the collapse of the technology bubble, with international value outperforming US large-cap equities by 6.5% annualized from 2000 through 2007.[1] While US equities experienced significant valuation compression during this period, international value returns were driven primarily by earnings growth and dividends. We see the relative opportunity for international equities, and international value in particular, increasingly compelling.

DIVERSIFICATION BENEFITS

For long-term investors, international value equities can provide meaningful diversification within a US-centric equity portfolio — even more so than international core stocks — as many seek to reduce concentration risk tied to a small group of mega-cap companies. Compared with US equities, international value offers broader sector exposure and meaningfully lower allocations to technology. In particular, its greater exposure to banks has become a key return driver recently, as the sector benefits from a higher-for-longer interest rate environment and strong loan demand.

Importantly, the correlation between international value and US equities is near historically low levels and has continued to fall in recent years, making international value a more effective diversifier relative to US equities than five or ten years ago. As investors increasingly look beyond the concentrated leadership of the US market, international value may offer both enhanced diversification and the potential for stronger risk-adjusted returns over market cycles.

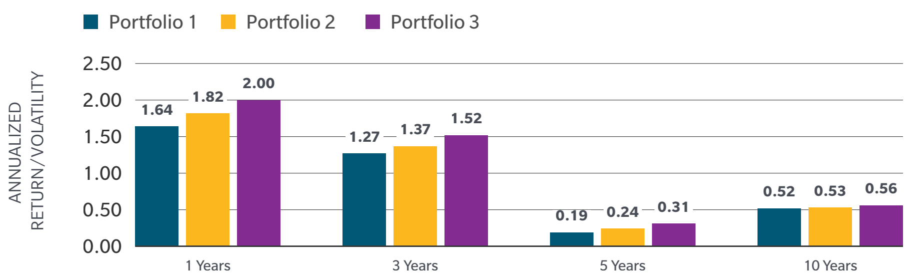
How EMD Can Fit into Portfolios

Advantages across multiple time frames

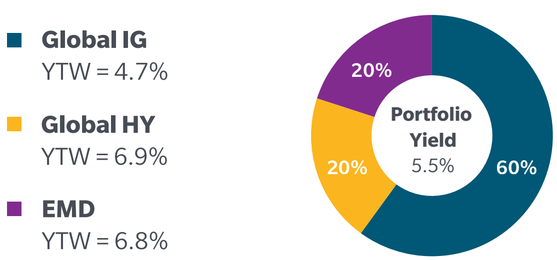
Hypothetical Portfolio Weights

	Portfolio 1	Portfolio 2	Portfolio 3
Global IG	95%	80%	60%
Global HY	5%	10%	20%
EMD	0%	10%	20%

Historical Return Per Unit of Risk



Hypothetical Portfolio Weight & Yield



Source: Top chart – FactSet. Monthly data ending 30 June 2026. Returns are gross and in USD. Global Investment Grade (IG) = Bloomberg Global Aggregate Corporate (USD Hedged), Global High Yield (HY) = Bloomberg Global High Yield (USD Hedged), Emerging market debt (EMD) = J.P. Morgan EMBI Global (USD Unhedged). Bottom chart – Bloomberg. Yield to worst (YTW) as of 30 June 2026. Global Investment Grade (IG) = Bloomberg Global Aggregate Corporate, Global High Yield (HY) = Bloomberg Global High Yield, Emerging market debt (EMD) = J.P. Morgan EMBI Global.

Past performance is no guarantee of future results. It is not possible to invest in an index. Hypothetical portfolio returns presented herein are for illustrative purposes, do not represent actual trading or the impact of material economic and market factors, and are based on analysis designed with the benefit of hindsight.

ADJUSTING TO HIGHER-FOR-LONGER

In the years leading up to 2021, fixed income investors faced a difficult balancing act between generating income and maintaining diversification. Persistently low interest rates compressed yields across traditional fixed income, limiting forward return expectations and pushing investors further out on the risk spectrum. Today, however, the environment has shifted meaningfully. Higher global rates have improved income opportunities across fixed income markets, and emerging market debt (EMD) sovereigns stand out as a compelling area for investors seeking enhanced yield and differentiated return drivers.

IMPROVING PORTFOLIO EFFICIENCY

Portfolios that include modest allocations to EMD have historically delivered stronger risk-adjusted returns than those relying primarily on corporate credit alone. During the decade leading up to 2021, traditional fixed income portfolios heavily concentrated in investment-grade bonds generally produced lower returns relative to the level of volatility assumed, particularly in the prolonged low-rate environment. Against this backdrop, portfolios that combined EMD with both investment-grade (IG) and high-yield (HY) bonds tended to improve overall portfolio efficiency over time. Even as yields have increased across fixed income markets since 2021, EMD has continued to stand out for its relatively attractive return/risk profile.

Broadly, EMD offers several distinguishing characteristics compared to traditional fixed income, including exposure to different economic and interest-rate cycles, and broader geographic diversification. EM economies are often influenced by distinct structural drivers such as commodity exports, demographic trends, domestic consumption growth, and earlier stages of economic development. In addition, many EM central banks have historically taken a different approach to monetary policy, at times tightening or easing earlier than developed market peers, leading to differentiated interest-rate and spread dynamics within the asset class. EM bond performance is often shaped by these structural factors — often differing from those affecting developed markets — resulting in lower correlation with core fixed income and higher return potential. Furthermore, the asset class also includes a meaningful allocation to IG issuers, which can help balance the overall risk profile.

STARTING YIELDS REMAIN ATTRACTIVE

One of the strongest arguments for EMD remains its yield potential: it has consistently offered competitive yields relative to other fixed income asset classes, regardless of the interest rate environment. Historically, starting yields have been among the strongest predictors of future fixed income returns — particularly over five- and ten-year investment horizons — since a significant portion of total return is driven by coupon income rather than price appreciation. This relationship is especially relevant in today's environment, where elevated yields across fixed income, particularly within EMD, may provide long-term investors with an opportunity to lock in attractive levels of income and return potential.

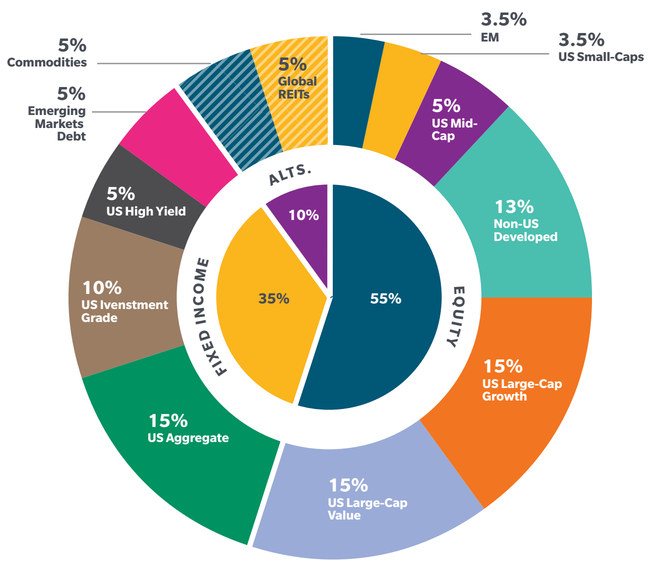
Importantly, EMD should not be viewed simply as a higher-yielding substitute for traditional credit. Rather, it can serve as a complementary allocation alongside IG and HY bonds to enhance risk-adjusted returns. For example, a hypothetical portfolio consisting of 60% global IG, 20% global HY, and 20% EMD generated a blended yield of approximately 5.5%, compared with just 4.7% for a portfolio with 100% IG bonds. With attractive yields, differentiated macroeconomic drivers, and diversification potential, EMD remains a compelling component of a modern fixed income portfolio.

MFS

Reference Portfolio's Statistics

Contributions to return and risk

Hypothetical Balanced Portfolio



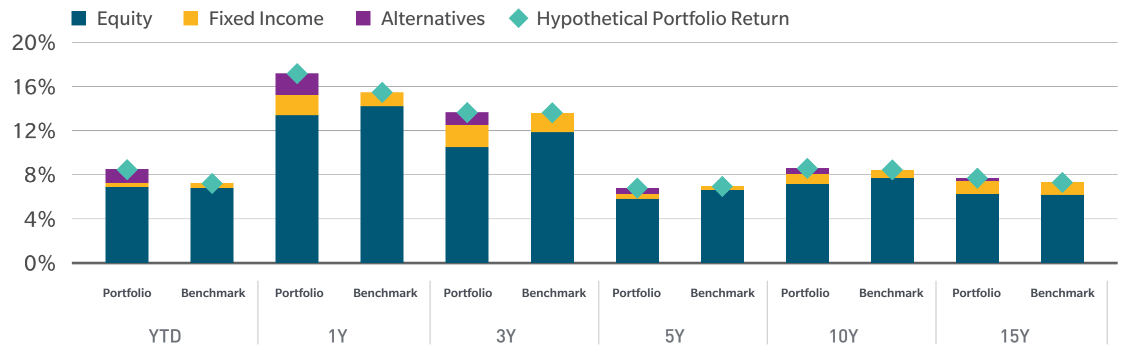
Client Objective

Balance growth potential with diversification and income

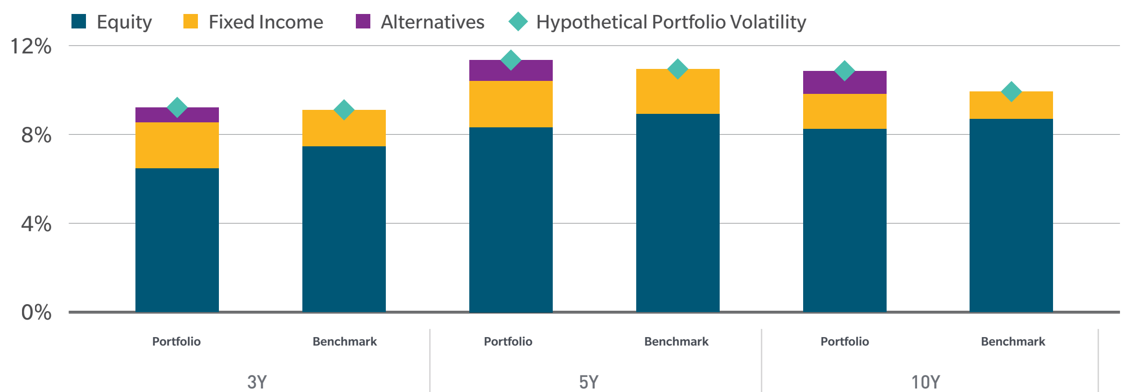
Benchmark

60% Global Equities, 40% US Agg Bonds

Contribution to Return



Contribution to Risk



Source: FactSet as of 30 June 2026. DM Equities = MSCI EAFE, EM Equities = MSCI EM, US Small-Cap = Russell 2000®, US Large Cap Growth = Russell 1000® Growth, US Large Cap Value = Russell 1000® Value, US Mid-Caps = Russell Midcap®, US Agg = Bloomberg US Aggregate, US IG = Bloomberg US Credit Corporate, US HY = Bloomberg US Credit Corporate High Yield, EMD = J.P. Morgan EMBI Global, Commodities = Bloomberg Commodity Index, Global REITs = NAREIT Global REITs. Benchmark portfolio = 60% MSCI AC World and 40% Bloomberg US Aggregate. Returns in USD and are gross for US equities, net for Non-US equities, and gross for fixed income Returns are rebalanced monthly. Risk-free rate used to calculate Sharpe Ratio is the FTSE 3-month Treasury Bill. **Past performance is no guarantee of future results. It is not possible to invest in an index. Hypothetical portfolio returns presented herein are for illustrative purposes, do not represent actual trading or the impact of material economic and market factors, and are based on analysis designed with the benefit of hindsight.**

Index Returns – US Investor

As of June 30, 2026

BENCHMARK	10 YEARS	5 YEARS	3 YEARS	1 YEAR	YTD	3 MONTHS
EQUITY						
S&P 500	15.51%	13.41%	20.61%	22.32%	10.21%	15.20%
Russell 1000® Growth	18.58%	13.71%	22.58%	17.71%	5.33%	16.74%
Russell 1000® Value	11.52%	11.17%	17.79%	27.12%	16.26%	13.87%
Russell 2000®	11.62%	6.98%	18.60%	40.78%	22.57%	21.49%
MSCI EAFE	9.66%	9.05%	16.44%	20.23%	9.44%	10.82%
MSCI Emerging Markets	10.07%	7.20%	23.03%	43.51%	23.85%	24.05%
MSCI ACWI	12.78%	10.98%	19.70%	23.67%	11.25%	14.93%
FIXED INCOME						
Bloomberg US TIPS	2.58%	1.01%	3.98%	3.42%	1.15%	0.89%
Bloomberg US Aggregate	1.54%	0.08%	4.16%	3.79%	0.62%	0.67%
Bloomberg Global Aggregate	1.92%	0.88%	4.50%	3.17%	1.15%	1.30%
CASH						
Cash	2.40%	3.69%	4.86%	4.05%	1.87%	0.93%

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Source: FactSet. Monthly data ending 30 June 2026. Returns are in USD. Equity returns are gross for S&P 500 and net for non-US indices. Fixed income returns are gross and hedged in USD. Cash = FTSE 3-month Treasury Bill Index. Past performance is no guarantee of future results. It is not possible to invest in an index.

Cash is based on returns for the FTSE 3-month Treasury Bill Index.

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Index Returns – Euro Investor

As of June 30, 2026

BENCHMARK	10 YEARS	5 YEARS	3 YEARS	1 YEAR	YTD	3 MONTHS
EQUITY						
S&P 500	14.60%	13.74%	18.27%	25.14%	13.01%	16.00%
MSCI Europe	10.27%	11.00%	15.09%	22.52%	11.28%	12.18%
MSCI EM	9.76%	7.98%	21.12%	47.34%	27.22%	25.02%
MSCI World ex USA	9.52%	10.12%	15.09%	24.22%	12.16%	11.08%
FIXED INCOME						
Bloomberg Global Germany (7-10Y)	-1.01%	-2.74%	1.79%	0.94%	1.34%	1.88%
Bloomberg US Aggregate (EUR Hedged)	-0.53%	-1.94%	2.14%	1.69%	-0.26%	0.25%
Bloomberg Euro Aggregate	-0.03%	-1.46%	3.34%	1.71%	1.30%	1.95%
Bloomberg Global Aggregate (EUR Hedged)	-0.09%	-1.07%	2.54%	1.10%	0.26%	0.88%
CASH						
Euro Cash	0.79%	1.95%	3.09%	2.03%	1.01%	0.50%

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Source: FactSet. Monthly data ending 30 June 2026. Returns are in EUR. Equity returns are gross for MSCI Europe and net for non-Europe indices. Fixed income returns are gross and hedged in EUR. Euro Cash = ICE BofA Euro Currency Deposit Offered Rate Constant Maturity (3M). Past performance is no guarantee of future results. It is not possible to invest in an index.

Cash is based on returns for the FTSE 3-month Treasury Bill Index.

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