SUN LIFE GRANITE MANAGED PORTFOLIOS

Tactical Update

JULY 2020 | Opinions as of August 20, 2020

The views expressed in this tactical update apply broadly to all Sun Life Granite Managed Portfolios, whereas the tactical highlights and allocation data in the chart below are specific to Sun Life Granite Balanced Portfolio. For the latest information about other Sun Life Granite Managed Portfolios, including Sun Life Granite Managed Income Portfolios, please refer to our quarterly fund reviews published at sunlifeglobalinvestments.com.

Stocks continued their four-month-long rally in July. This, despite the ongoing spread of COVID-19 across many parts of the world. Instead, investors focused on the massive amount of fiscal and monetary support underpinning the markets and global economy. They are also banking on potentially more to come – particularly in the U.S. – as major economies continue to open up.

Given the rapid market run-up that erased one of the shortest bear markets in history, we remain cautious – moving from being slightly underweight equities at the end of Q2 to neutral. Within our asset mix, we maintained our overweight position in U.S. and emerging market equities. As well, with increased stimulus spending in Europe where COVID-19 is more contained, we shifted from neutral to being slightly overweight. But given the economic challenges facing Canada, we added to our underweight exposure.

In terms of the U.S. market, we favoured growth and active management investment styles over value. The American economy was performing well heading into the crisis, with U.S. companies and consumers in better shape than those in many other countries. In fact, we have seen an uptick in U.S. retail spending, jobs and housing prices. Moreover, policy makers have both the will and means to shore up the U.S. recovery if it begins to stall.

Still, there are risks. COVID-19 cases continue to rise. And, as the November U.S. election nears market volatility could increase. The latest proposed US$1 trillion round of stimulus spending has also been delayed by partisan wrangling in Washington. Ultimately, we expect the impasse to be resolved with the government and the U.S. Federal Reserve continuing to support the recovery.

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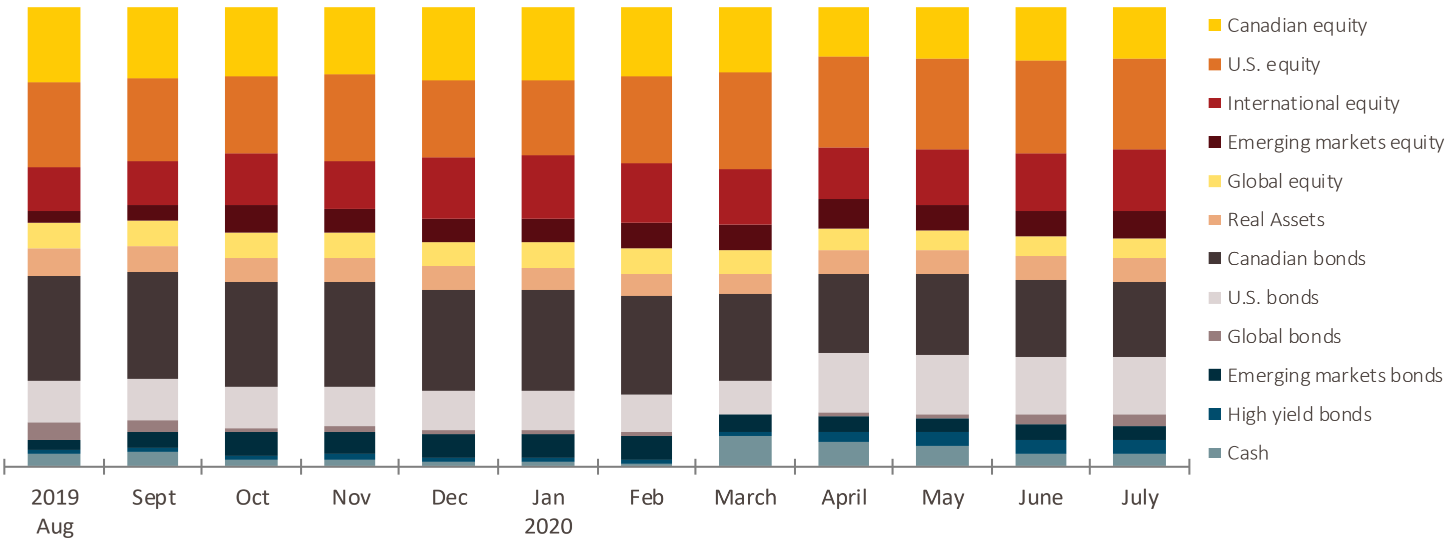
TACTICAL HIGHLIGHTS

CHANGE		RATIONALE
Moved from neutral to overweight in international equities	➤	Increased stimulus; virus more contained in Europe
Added to underweight position in Canadian equities	➤	Economic recovery could be slower than U.S.
Maintained overweight in emerging market equities	➤	China's economy improving; category under-owned
Maintained overweight in U.S. equities	➤	Government, Fed can deliver even more stimulus

TACTICAL ALLOCATIONS | SUN LIFE GRANITE BALANCED PORTFOLIO



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

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With the Chinese economy improving, we maintained our overweight in emerging market equities. Developing economies have benefitted from both a weaker U.S. dollar and the massive amount of liquidity washing through global financial markets. Moreover, investors are heavily underweight emerging market equities, suggesting further potential upside if this imbalance corrects.

On the downside, a number of major emerging market countries, including India, have had difficulty reopening their economies. Tensions between Beijing and the Trump administration also escalated. Most recently, the White House demanded that TikTok, a popular Chinese video-sharing service, sell its U.S. operations to an American company.

For its part, Europe entered the pandemic with anemic economic growth and a troubled political union with Britain earlier this year voting to leave the European Union. However, while there continues to be outbreaks, Europe has gone a long way toward containing the coronavirus. In fact, at the end of July, while there were about 65,000 new cases a day in the U.S. there were less than 10,000 a day in the EU, which has a larger population.

As well, to help the hardest hit counties the EU launched a US$888 billion recovery fund. In a further demonstration of its collective will, the EU agreed to finance the fund through the sale of bonds. A bond issue on this scale would be a first for the EU, and could address financial divisions that have long plagued it. Key European indexes have rallied on the initiative, with potentially more upside. And as noted, we moved from neutral to a slight overweight position in international equities.

We are not as sanguine on Canada. Indeed, the Canadian market has to climb out of a hole created by both the COVID-19 crisis and continuing low oil prices. Partly as a result, job losses in Canada have been deeper than in the U.S. This suggests that the economic recovery may be more protracted in Canada than the U.S.

Even so, the S&P/TSX Composite Index has climbed along with other major markets. However, it should be noted that those gains have been narrowly focused, with technology and mining stocks driving returns.

The one bright spot in the Canadian economy has been housing. Fuelled by rock-bottom interest rates, prices have climbed to record levels in some markets. However, we believe prices could soften over time in a lengthy economic downturn. Given the overall economic uncertainty, we see better risk/reward potential in other markets. As such, we increased our underweight position in Canadian equities.

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