

Economic scenarios breakdown

Investment solutions for each stage in the economic cycle

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For the last 20 years, equity investors have enjoyed lucrative markets fueled by accommodative monetary policies, high government spending, minimal inflation, and low interest rates. But will this last?

Equity markets have provided impressive returns over the past two decades:

Geography	Index	20-year return annualized*	20-year return cumulative*
U.S. equities	S&P 500 (C\$)	+10.8%	+675%
Canadian equities	S&P/TSX Composite	+8.3%	+395%
International equities	MSCI EAFE (C\$)	+6.2%	+234%

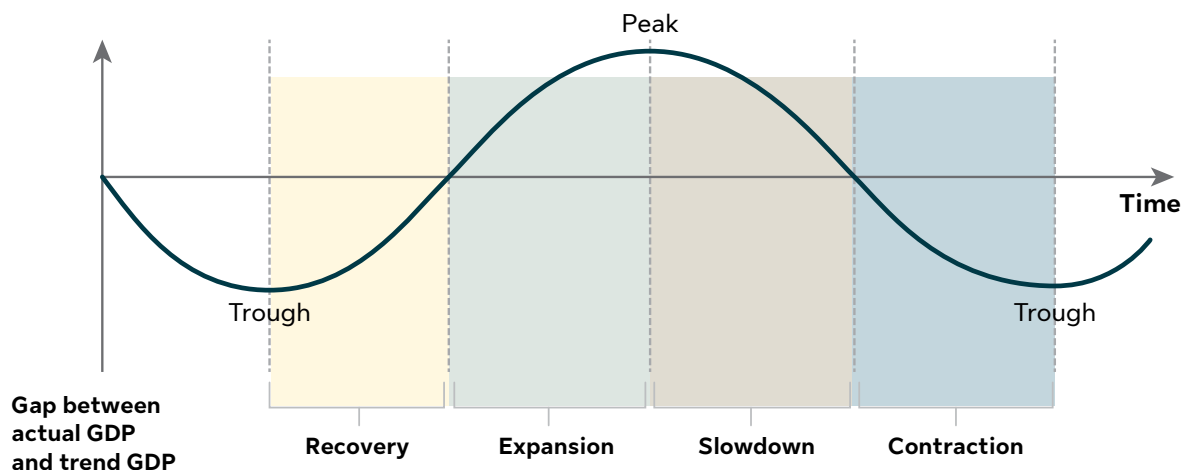
*Source: Morningstar Direct as of Aug. 31, 2024

Robust historical equity performance may have given investors unrealistic expectations for the upcoming decades. The future may be more difficult with less accommodative monetary policies marked by higher interest rates and increased inflation. Further, shifting geopolitical tensions and less government spending due to high government debt could also negatively impact markets. Generally speaking, the markets and economic environment over the last 20 years have been positive for passive investment strategies. But with potentially more difficult times ahead, investors may want to consider moving into high quality, actively managed investment solutions that strive to improve investment outcomes wherever the economy is headed.

What solutions are best suited for different stages of the economic cycle?

To help you build high conviction portfolios for your clients, consider Sun Life Global Investments' diverse, actively managed investment options. They can serve as building blocks for portfolios or as standalone solutions. See below for a breakdown of which solutions can be optimal at different economic stages.

Stages of the economic cycle over time



About the four stages of the economic cycle

Recovery

Economic negative output narrows and starts to move towards growth. Corporate profits and output, aggregate demand, and the supply of goods and services are below potential but start to increase.

- **Inflation:** Remains moderate
- **Interest rates:** Decreasing
- **Unemployment:** Steadying, but still higher than average

Impact

As the economy starts to recover, consider starting to decrease allocations in core bonds and move to riskier fixed income assets that have historically benefited from improving market and economic conditions. It may also be time to pivot from more value and income-oriented strategies to more growth-oriented ones. Growth-oriented strategies will start to benefit from a recovery, and even more once economic expansion starts. Equity markets are a leading indicator, so they will likely recover before the economy starts to expand. Also, the use of some real estate and infrastructure equities may make sense as these asset classes are likely to be back in favour. That's due to factors such as falling interest rates, which can help business growth. Further, housing activity may also pick up.

Slowdown

Economic output reaches its highest level relative to potential output. The economy's growth rate begins to slow relative to potential output growth. Companies may rely on overtime rather than hiring for new jobs to meet demand.

- **Inflation:** Increasing and accelerating
- **Interest rates:** Increasing
- **Unemployment:** Still improving, but slowing

Impact

"Safe" assets, such as government bonds, are more highly prized. Interest rates tend to increase, which often results in higher bond yields. In addition, investors may fear higher inflation, which also contributes to higher nominal yields. Remaining invested in equities may be warranted to offset the impact of inflation. The slowdown phase favours income-oriented strategies that will continue to benefit from high dividends earned by their investments. Also, value and low volatility-oriented strategies that focus on undervalued, high-quality companies tend to fare better during an economic slowdown.

Expansion

The economy is growing and in an upswing. Corporate profits and output, aggregate demand, and the supply of goods and services tend to show sustained uptrends through the expansionary cycle.

- **Inflation:** Increasing modestly
- **Interest rates:** Accommodative (relatively low)
- **Unemployment:** Stable and falling

Impact

Growth-oriented companies, small cap companies, and emerging markets typically experience improvements in an expansion, disproportionately taking advantage from the low cost of capital. Higher yielding bonds benefit from low default rates and higher demand due to the higher yields they provide versus core bonds. Real estate and infrastructure equities continue to gain popularity. That's because these asset classes are in favour in a robust economic environment, which helps investors hedge budding inflation.

Contraction

Also known as a recession, consumers demand less during this stage. In response, economic output declines with fewer goods and services being produced. Businesses may discount their pricing in an effort to increase sales.

- **Inflation:** Decreasing
- **Interest rates:** Declining
- **Unemployment:** Rising

Impact

Cash and low risk investments such as money market funds are seen as valuable. Typically bond prices increase, and bond yields fall. Defensive stocks that provide consistent dividends and stable earnings, such as utilities and well-established companies with strong cash flows, may help protect a portfolio.

All stages in the economic cycle

Sun Life Global Investments offers solutions suitable for all stages in the economic cycle. This is because they're broadly diversified by investment style, asset class, and geographic regions. Also, certain portfolio solutions have a tactical overlay, enabling them to take advantage of short-term market dislocations. These solutions can help encourage clients to stay invested so they can grow their money to meet their individual goals and potentially protect on the downside if markets fall.

Here's a selection of our diverse mutual fund solutions and how they align with each of the four stages of the economic cycle.

Fund & risk rating (all Series F)	Fund Details			Products and suitability			
	Inception date	Management fee Series F	Fund Code	Recovery	Expansion	Slow-down	Contraction
Low risk rating							
Sun Life Money Market Fund	2010-10-01	0.45%	SUN 407			•	•
Sun Life Core Advantage Credit Private Pool	2020-02-25	0.43%	SUN 630			•	•
Sun Life MFS Canadian Bond Fund	2012-03-30	0.43%	SUN 474			•	•
Sun Life Multi-Strategy Bond Fund	2011-09-01	0.50%	SUN 422			•	•
Sun Life MFS Global Core Plus Bond Fund	2010-11-03	0.43%	SUN L611			•	•
Low-medium risk rating							
Sun Life MFS Low Volatility Global Equity Fund	2016-02-11	0.75%	SUN 1403	•		•	•
Sun Life Nuveen Flexible Income Fund	2014-01-31	0.80%	SUN 480			•	
Sun Life Wellington Opportunistic Fixed Income Private Pool	2016-06-06	0.77%	SUN 1410			•	•
Sun Life Crescent Specialty Credit Private Pool	2022-07-18	0.70%	SUN 434	•	•		
Sun Life Dynamic Equity Income Fund	2013-01-16	0.70%	SUN 477			•	•
Medium risk rating							
Sun Life MFS Canadian Equity Fund	2008-02-15	0.75%	SUN 466	•	•		
Sun Life MFS U.S. Mid Cap Growth Fund	2021-11-15	0.85%	SUN 468	•	•		
Sun Life MFS U.S. Equity Fund	2008-02-15	0.80%	SUN 456		•		
Sun Life MFS U.S. Growth Fund	2010-09-30	0.80%	SUN 405	•	•		
Sun Life MFS U.S. Value Fund	2010-09-30	0.80%	SUN 406	•		•	•
Sun Life MFS Global Growth Fund	2010-09-30	0.80%	SUN 400	•	•		
Sun Life MFS Global Value Fund	2010-10-01	0.95%	SUN 401	•		•	•
Sun Life Real Assets Private Pool	2015-01-30	0.90%	SUN 485	•	•		
Sun Life KBI Global Dividend Private Pool	2020-02-25	0.75%	SUN 465	•	•		
Sun Life KBI Sustainable Infrastructure Private Pool	2021-11-15	0.95%	SUN 467	•	•		
Sun Life MFS International Value Fund	2010-10-01	0.95%	SUN 404	•		•	•
Sun Life MFS International Opportunities Fund	2010-09-30	0.80%	SUN 403	•	•		
Sun Life MFS Low Volatility International Equity Fund	2016-02-11	0.75%	SUN 1406	•		•	•
Sun Life Schroder Emerging Markets Fund	2011-08-31	1.10%	SUN 420	•	•		
Medium-high risk rating							
Sun Life Aditya Birla India Fund	2005-01-05	0.85%	SUN L600	•	•		

So, what's ahead?

Even top economists don't know what the future holds. Sun Life Global Investments' diverse range of mutual fund solutions can help your clients be better prepared in any scenario. Covering all stages of the economic cycle, our solutions offer a broad diversification approach that seeks to smooth out the investment experience. They also offer:

- Portfolio solutions that use of tactical overlay in order to benefit from short-term market dislocations
- Hand selected sub-advisors to ensure access to world class product innovation from around the world
- Active investment management using extensive research, analysis, and experienced judgement from our sub-advisors, who aim to manage risk, increase income or outperform the market depending on the fund's targets

Connect with your Sun Life Global Investments Wealth Sales Director today to learn more about our line up of funds.



For more information, contact your Wealth Sales Team or:

Visit sunlifeglobalinvestments.com | Call 1-877-344-1434

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