SUN LIFE GRANITE MANAGED PORTFOLIOS

Tactical Update

SPECIAL U.S. ELECTION EDITION | Opinions and data as of November 15, 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.

Markets turned volatile in the weeks running up to the Nov. 3 U.S. election. The bellwether S&P 500 retreated from its all-time high. Even the tech-heavy Nasdaq wasn't immune, falling 10% in just three days. Clearly, as the vote drew near, investors favoured the sidelines over the playing field. But sentiment quickly shifted, with pre-market futures turning green on President-elect Joe Biden's apparent victory. By the end of trading on Nov. 4, the S&P 500 was surging toward its greatest post-election rebound since Franklin D. Roosevelt's victory in 1932.

Even with U.S. President Donald Trump refusing to accept defeat, Biden's victory brought clarity to the pre-election chaos. And, as if to punctuate Biden's victory and give investors even more confidence, Pfizer Ltd. announced that its experimental vaccine was 90% effective in preventing the COVID-19 virus.

Still, beneath Biden's victory and Pfizer's apparent breakthrough, the market has a wall of worry to climb. At the top of the list: a second wave of COVID-19 is accelerating worldwide. Major economies are again facing the prospect of a complete lockdown. If this happens, it could slow the economy again, with corporate profits and equity valuations possibly taking a hit.

For now, from our perspective, Biden's victory (clarity) and Pfizer's announcement (hope) could potentially give the market momentum into the New Year. And we continued to overweight U.S., emerging market and international equities. However, as we have from the start of the year, we maintained our underweight position in Canadian equities.

Overall, we are neutral on bonds. However, with the U.S. Federal Reserve backstopping corporate high yield bonds, we added to the category as it continued to outperform government bonds.

In terms of the U.S., with a new president in the White House we may see another round of economic stimulus. Although its scope, or whether it occurs at all, could depend on the outcome of two Senate races in Georgia in January. A win by Democratic Party candidates would give the party control of the...

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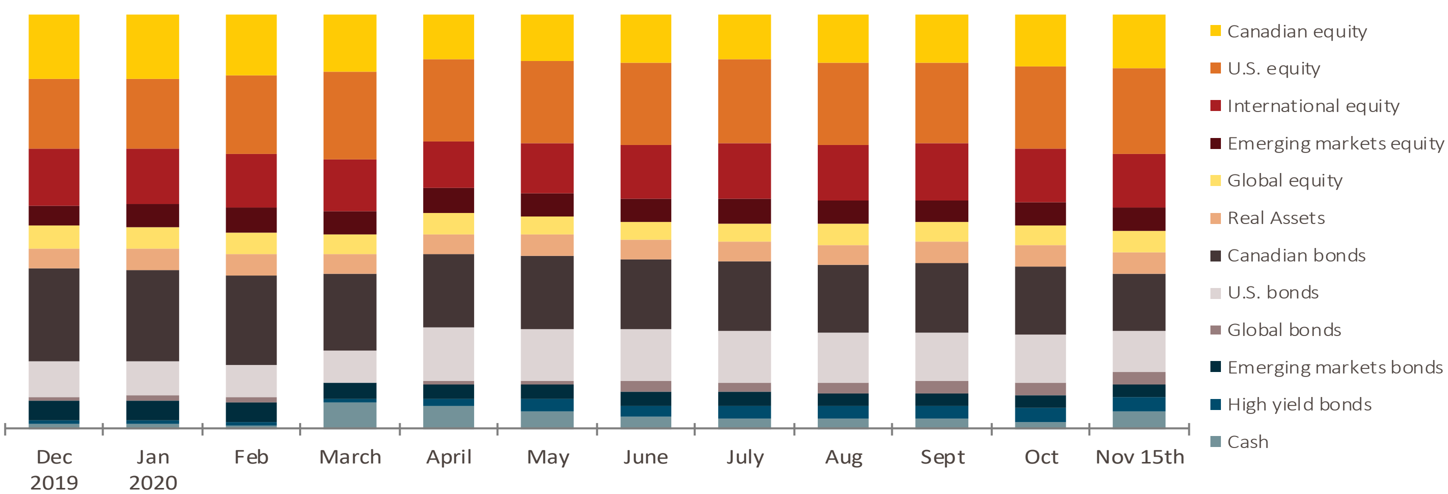
TACTICAL HIGHLIGHTS

CHANGE		RATIONALE
Reduced underweight to Canada	➤	Could see a further rotation into value
Added high yield bonds	➤	Higher yield than government bonds – credit over yields
Trimmed exposure to EAFE equities	➤	COVID-19 surging; threatens recovery
Increased U.S. weighting - rotated some from growth to value	➤	Composition of market; economic strength

TACTICAL ALLOCATIONS | SUN LIFE GRANITE BALANCED PORTFOLIO



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

▸ Continued from previous

...Senate, potentially opening the door to a larger stimulus package.

As the pandemic grows, we believe the composition of the S&P 500 may allow it to hold up better than some other markets. To reduce risk, we are using a barbell strategy. On one side, we are emphasizing large-cap U.S. growth stocks. They could hold up better in a difficult economy, and may continue to benefit from the work-from-home trend.

On the other side, we are taking an opportunistic tilt, adding U.S. value names and asset classes that lagged growth in the run-up. This strategy came into play following Biden's election and Pfizer's announcement when large-cap growth stocks temporarily sold off. At the same time, value stocks, including cyclicals, rose in anticipation of a broader economic bounce-back.

We are optimistic about emerging markets and remain overweight. Some emerging market countries, notably India and Brazil, continue to be hit hard by the virus. Others, including South Korea and Taiwan, have it more under control. Most significantly, China appears to have put the pandemic behind it with economic growth increasing.

As well, with U.S. interest rates remaining low, emerging market countries should continue to benefit from a cheaper U.S. dollar. Indeed, we may see a significantly weaker dollar over the next year.

In terms of international equities, we have concerns with COVID-19 spreading rapidly in Europe. In fact, Britain, France and other major European countries are again in the process of locking down large parts of their economies. As well, the all-but-stalled negotiations surrounding Britain's departure from the European Union (EU) continues to sow uncertainty.

However, European markets and the economy are supported by the EU's US$888-billion recovery fund and other fiscal measures. There have also been positive signs with exports (led by Germany) starting to pick up. And although we have trimmed our position, we remain slightly overweight EAFE equities.

In terms of Canada, we moved closer to our benchmark but remain underweight. Our broader concerns centre on over-extended Canadian consumers, who have little room to take on new debt. As well, we are watching home prices, which have risen to record levels in some markets. Moreover, with continuing low oil prices weighing on the economy, we don't see a catalyst that could change our opinion.

Sun Life Global Investments
1 York Street, Toronto, Ontario M5J 0B6
T: 1.877.344.1434 | E: info@sunlifeglobalinvestments.com
sunlifeglobalinvestments.com/Commentary

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