

Tactical Update

NOVEMBER 2020 | Opinions as of December 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.

This was a year like no other. U.S. President Donald Trump, claiming massive election fraud, refused to concede. COVID-19 swept across the world – the arrival of new vaccines offered hope. Investors weighed all three, with markets rallying to record highs on a preference for President-elect Joe Biden's predictability and the possibility that the virus could be beaten.

Even with the vaccines' promise, we still have a long way to go. Millions of people remain unemployed; COVID-19's second wave is proving extremely difficult to contain – another down leg in the global recession is still possible.

Despite this uncertainty, markets remained buoyant at year-end. And we are overweight U.S., emerging markets and international equities, in which we have a small overweight. While still underweight Canada, we moved closer to neutral.

In terms of fixed income, we reduced exposure to Canadian and U.S. investment grade bonds. However, we are slightly overweight high yield corporates, which continue to be backed by the U.S. Federal Reserve. We remain neutral on emerging market debt.

At 3%, the U.S. is our largest overweight position. From a macro standpoint, we believe the U.S. is still the world's most resilient economy. There is also room, on both the monetary and fiscal side, for the government to further support the economy. In addition, with its move to a record high, the market has signaled its preference for President-elect Joe Biden, but with a Republican-controlled Senate in opposition. However, that sentiment could change if the Democrats take control of Congress by winning two Senate elections in Georgia on January 4.

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TACTICAL HIGHLIGHTS

CHANGE

Reduced underweight to Canada



Could see further rotation into value

Reduced weighting in Canadian, U.S. government bonds



See better yield alternatives

Overweight equities in general



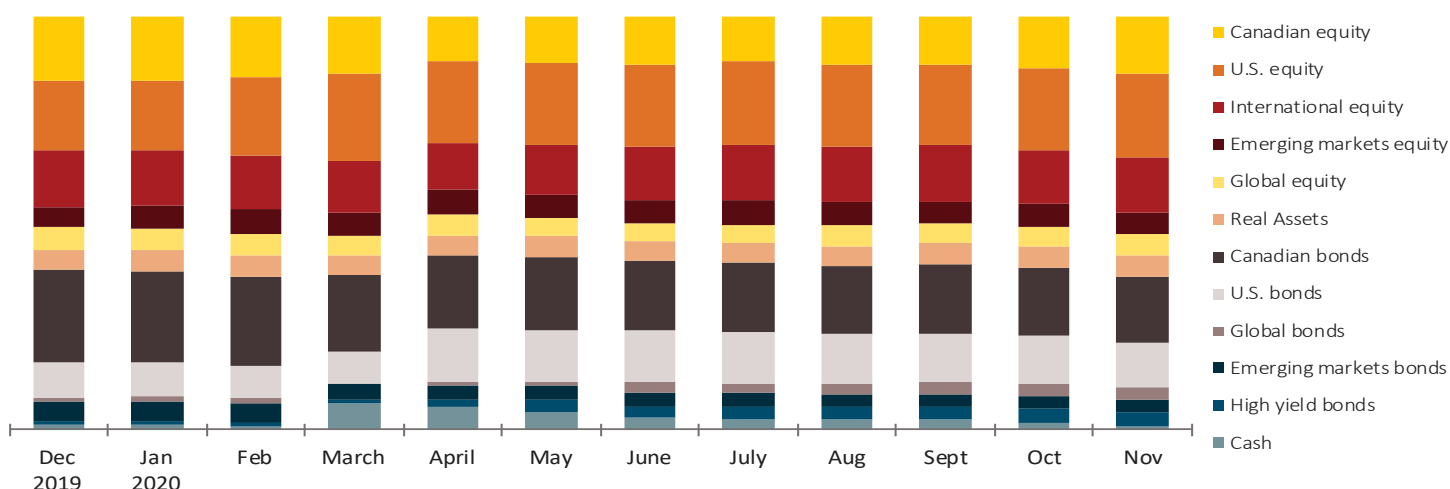
Optimism around vaccine, new U.S. president

Used options on value trade



Expect rotation into value to continue

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

We have also added U.S. value names and asset classes that lagged growth in the run-up. Indeed, we've seen value stocks, including cyclicals, rise in anticipation of a broader economic bounce back. This trend could accelerate if the economy improves as vaccines roll out. For now, we continue to look for opportunities to rotate more of the portfolio from growth to value. As well, we have made some tactical options trades in value sectors, including industrials and financials.

Emerging markets are our second-largest overweight. Both China's and India's economy have posted strong growth in recent months. Indeed, Chinese companies shipped US\$268 billion in exports in November, up 21% over the same month last year. India's composite purchasing managers index rose to 58.9% in October versus 54.6% in the previous month – it's strongest increase in nine years.

It remains to be seen whether the recovery in emerging markets broadens out. To that end, with U.S. interest rates remaining low, these countries could continue to benefit from a cheaper U.S. dollar.

With a slight overweight position in international equities, we are closely watching the impact of COVID-19 on Europe. In Q3, economic growth in the European Union (EU) started to recover, driven by both domestic demand and exports. However, a number of EU countries have been hit hard by the pandemic's second wave. As well, stalemated Brexit negotiations have further clouded the economic outlook. In response, the

European Central Bank eased monetary policy by increasing and extending its bond-buying program again.

However, with the economic slowdown equity valuations remain more attractive than their U.S. counterparts. We are waiting for more clarity on the damage COVID-19 and Brexit is doing to the EU economy. And we will look for opportunities take advantage of the lower valuations – particularly in the U.K.

We are underweight Canada, but the economic outlook appears to be improving. Corporate earnings are at a two-year high. Oil prices have also rebounded to the US\$50 a barrel range from US\$40. Some forecasts suggest it could go as high as \$60 if the economy recovers in the coming months.

Canadian consumers are also flush with cash. This, because of federal government support programs. Indeed, higher rates of saving over the last three quarters boosted savings by the equivalent of 6.8% of GDP (\$151 billion). If consumers start spending this money, it could have a significant impact on the economy.

However, despite job gains nearly 750,000 Canadians remain unemployed. As well, we are concerned that home prices are overvalued in some areas of the country and could soften. And as we are in the U.S. with our rotation into value, we will look for opportunities to invest in areas of the Canadian market benefiting from a potential upswing in global growth.

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