SUN LIFE GRANITE MANAGED PORTFOLIOS

Tactical Update

NOVEMBER 2022 | Opinions as of December 9, 2022

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.

Investor sentiment was low at the start of November as the U.S. Federal Reserve (the Fed) raised rates by 75 basis points (bps). However, things changed as the Fed released a statement suggesting it may potentially ease future hikes. At the same time, Fed chairman Jerome Powell reiterated that rates may stay higher for longer. Both equity and fixed income markets rallied following a lower-than-expected inflation report a week later.

Equity markets rose for the month of November, with the three major indices – the Nasdaq, the Dow Jones Industrial and the S&P 500, posting gains.

We remain cautious on equities and maintain U.S. equities position to underweight via hedges. Our Canadian Equity position remains neutral.

We are overall underweight equities and using options to hedge the downside while positioned against further downside.

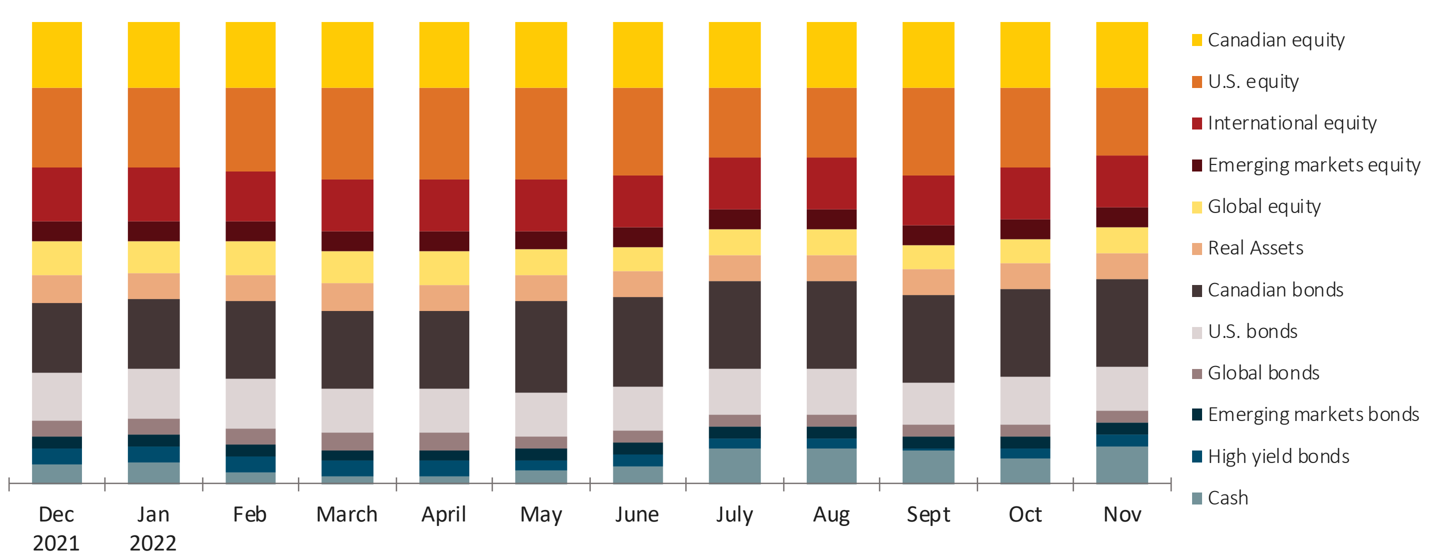
With hopes that the Fed may be near the end of its rate hike cycle, bonds delivered positive returns for the month. The yield on the 2-year U.S. Treasury saw its largest drop in over 10 years.

We believe that high quality bonds are well positioned to overcome recessionary risks, which we think may rise. Longer-term bond yields are likely to stabilize and ultimately fall as the recessionary environment is fully priced in. We are tactically adding long-term bonds in the portfolio and reducing our exposure to high yield credit.

TACTICAL HIGHLIGHTS

CHANGE	RATIONALE
Underweight U.S. equities	The focus of our hedging is in this region so we are opportunistic in our underweight position when conditions moderate and downside risk is elevated.
Remain overweight Canadian investment grade bonds	We maintain a preference for Investment Grade over High Yield. Also, given Canada’s sensitivity to higher rates, we think the Bank of Canada will not be able to raise rates to same level as the Fed.
Maintain an overweight position to cash	With Interest rates at 4%+ the bar to invest in other Asset Mix categories becomes higher. When we are risk-off in Equities and not Fully allocated to duration Bonds then cash is the preferred choice.

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

Our stance on Canadian equities remains neutral as we believe the energy-dominated equities could face headwinds if aggregate demand and growth softens due to monetary tightening.

As central banks approach the limits on interest rates, we believe yields could peak at levels not far from current readings.

We are optimistic on high quality bonds that could withstand a recessionary environment. We deployed more cash towards Canadian investment grade bonds where we maintain an overweight position. While we have put some of our cash position to work investing in high quality bonds, we still hold an overweight position in cash as we look for opportunities in higher duration assets.

Sun Life Global Investments

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