SUN LIFE GRANITE MANAGED PORTFOLIOS

Tactical Update

APRIL 2023 | Opinions as of May 10, 2023

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.

U.S. equity markets were range bound for much of April and early May, as problems with the country's regional banks resurfaced. The U.S. Federal Reserve's (the Fed) aggressive rate hikes since 2022 has shaken the business models of many regional banks.

In late April, First Republic Bank suffered deposit flight, which raised concerns about the health of other regional banks. While the crisis was resolved by a government-led sale of First Republic Bank to JPMorgan Chase & Co., we believe the turmoil is leading to further tightening in financial conditions.

Despite problems with regional banks, the Fed raised its target interest rates to a range of 5% to 5.25%, the highest since 2007, and hinted it might hold interest rates at current levels. The Fed's decision came amid a backdrop of mixed economic data. So far, the U.S. economy has proven quite resilient to the Fed's attempts to slow it down with interest rate hikes. For instance, U.S. unemployment fell to 3.4% in April, the lowest since 1969. On the other hand, U.S. Consumer Price Inflation (CPI) fell to 4.9% in April – the first time below 5% in two years.

Further, a political tussle in the U.S. over raising the country's debt-ceiling is adding to uncertainties. Without the ability to borrow beyond the current debt ceiling, the U.S. government could default on its outstanding debt and other obligations. This could have serious market consequences.

The U.S. government has warned it may run out of funds as early as June. While we think the debt ceiling crisis could be averted, we also believe it will add to market volatility.

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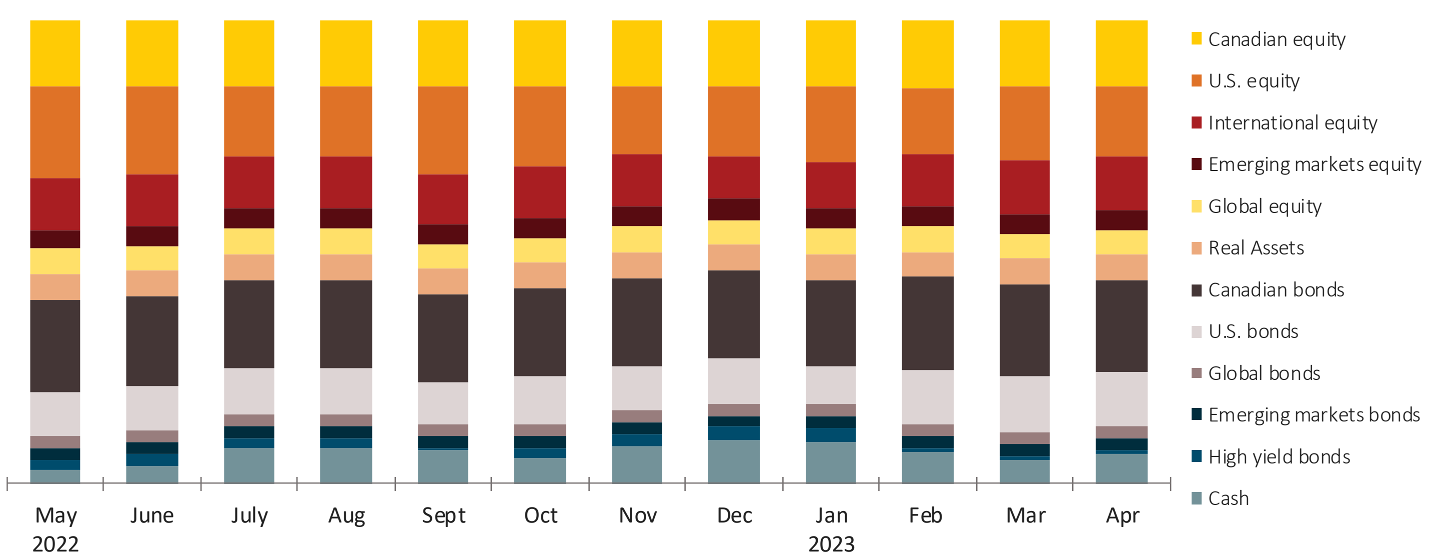
TACTICAL HIGHLIGHTS

CHANGE	RATIONALE
Underweight both U.S. and international developed market equities	We estimate earnings risks to rise as developed markets' central banks hold rates high
Underweight global high yield bonds	We expect a further widening in high yield credit spreads as monetary conditions tighten
Overweight Canadian and U.S. investment grade bonds	Better financial capacity for North American investment grade issuers to weather an economic downturn

TACTICAL ALLOCATIONS | SUN LIFE GRANITE BALANCED PORTFOLIO



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

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We estimate the bulk of the monetary tightening's effects on the economy will be felt during the second half of 2023. We don't expect the Fed to cut interest rates this year as markets currently predict. That's because while headline inflation is on a downward trend, core inflation at 5.5% is still far higher than the target level of 2%. While both equities and fixed income reflect some of the risks from monetary tightening, we don't see these major asset classes adequately pricing in risks. Consequently, we are underweight equities and neutral fixed income. We also expect to add higher-quality longer-term bonds to gain duration.

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