SUN LIFE GRANITE MANAGED PORTFOLIOS

Tactical Update

November 2021 | Opinions as of December 15, 2021

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.

Major equity indexes fell in November, as worries mounted over the coronavirus variant Omicron, inflation and a more hawkish U.S. Federal Reserve. Initially, markets sold off on the emergence of Omicron, a more transmissible version of the virus, and governments rushed to reinstate border restrictions. Against that backdrop inflation continued to run at a 30-year high. And shortly after month's end, Fed Chair Gerome Powell also rattled the market when he told Congress he would no longer describe the spike in inflation as "transitory" – an indication that the Fed he might raise interest rates faster than expected.

All this caused volatility to surge In November, with the VIX hitting its highest level since January. As such, we remained neutral on equities in general. For now, within our neutral equity mix, our largest equity weight is in global mid-cap and small-cap stocks. This gives us broad exposure to cyclicals and value stocks as the global economy continues to recover.

On the fixed income side of the portfolio, we continued to underweight investment grade bonds on duration risk. We also remained overweight cash in November and could eventually use some that to increase our bond holdings if yields appear to be moving higher. However, in November, the yield on U.S. 10-year Treasuries remained around 1.5% and the two year at 0.52% - this despite the strong inflation numbers that could force the Fed to increase interest rates sooner than earlier predicted.

Alternatively, even though spreads have narrowed, we continue to prefer the risk/reward profile of high-yield corporate bonds and remained overweight in November. Within this weighting we maintained our specific allocation to intermediate-termed corporates. We have also been selling calls on the category for incremental income.

In terms of the U.S., we believe the economy is well positioned with strong consumer spending and continued monetary and fiscal support, with the US$1 trillion bipartisan infrastructure bill signed into law. Given this potential economic strength, we maintained an even style bias between high-quality U.S. growth and value stocks. Growth and value led the market at different times in 2021. However, if the economy continues to recover value stocks may again lead the market higher and we are watching for signs of strength in the group.

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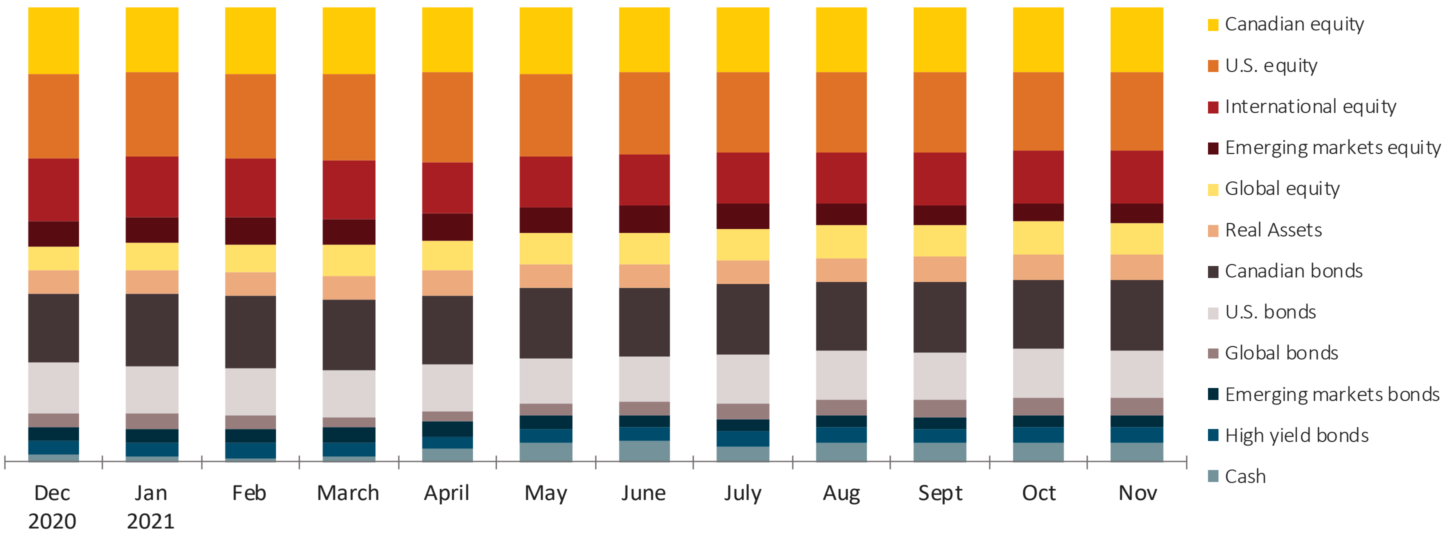
TACTICAL HIGHLIGHTS

CHANGE		RATIONALE
Underweight investment grade bonds	➤	Duration risk, possible rising interest rates
Maintained neutral exposure to emerging market equities	➤	Regulatory risk in China, sluggish economy
Overweight global mid caps	➤	Potential growth as economy rebounds

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 continued to be neutral on Canadian equities. But we are positive on the economy, which added 154,000 jobs in November. It continued to benefit from a strong housing market and a surging demand for commodities, including oil, natural gas and base metals like copper. However, there are risks. For one, Canadians wracked up $193 billion in new mortgage debt during the pandemic, with house prices potentially now overheated.

In terms of the S&P/TSX Composite Index, it's heavy weighting in financials (30%), energy and materials (25%)* makes its performance difficult to anticipate. As well, idiosyncratic company stories like we've seen in the run-up of individual stocks, adds to the difficulty in forecasting the Canadian market.

We also held to our neutral weighting in emerging markets. To reduce risk, we have been selling calls on the group. That said, some EM countries, including India, have performed well. However, given the population density and low vaccination rates in some EM countries, the Omicron variant could prove difficult to control. Indeed, the number of COVID-19 cases quadrupled in one four period alone in November as the Omicron variant spread across South Africa.

China, with the largest weighting in our benchmark, saw manufacturing output unexpectedly pick up in November, as raw material prices fell and power rationing abated. However, before we move off our neutral position in emerging markets, we would like to see stability in China's regulatory environment, further progress in containing COVID-19 and less tightening from central banks.

We held to our allocation to global equities in November with a 1.8% overweight to global mid-cap stocks. However, in terms of EAFE equites we maintained a 1.5% underweight to international large-caps with exposure to Europe. Vaccination rates are lower in the Europe than the U.S., with the Omicron variant possibly having a greater negative impact on the economy. As well, rising energy prices in Europe could moderate industrial activity, especially as we head into winter. As a result, we remain cautious.

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