

# Tactical Update

JANUARY 2024 | Opinions as of February 14, 2024

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](https://sunlifeglobalinvestments.com).

U.S. equity markets rallied in the first six weeks of 2024. After rising over 24% in all of 2023, the widely followed S&P 500 index, rose another 5% to an all-time high in early February. The tech-heavy Nasdaq Composite index jumped over 7% in the first six weeks of 2024. Markets were initially buoyed by expectations that the U.S. Federal Reserve ("the Fed") will start cutting interest rates as early as March 2024 as inflation slowed. Markets were also boosted by strong jobs growth; the unemployment rate was just 3.7% in January, near all-time lows.

However, January's inflation figures surprised markets: the U.S. Consumer Price Index (CPI) rose 3.1%. While this was the slowest pace of inflation since June 2023, it exceeded forecasts of 2.9%. That threw doubts on expectations that the Fed will cut interest rates in March 2023.

We were not surprised by the stubbornness in inflation. We predicted that the last stage to lower inflation back to the Fed's target of 2% was going to be tough. January's price gains played to our views. However, despite the inflation surprise, we still believe price growth will continue to slow in the coming months barring geopolitical risks. We also believe that central banks will be wary to rapidly cut interest rates. After January's surprise inflation, markets now expect the Fed to cut interest rates in June, more or less in line with our views.

On the other hand, despite inflation-induced volatility, markets resumed their rise. That's because the U.S. economy is signaling that it is neither too hot nor too cold. Retail sales and industrial production data in early February cooled, reassuring markets that interest rate cuts may not be too delayed.

*Continued on next page ►*

## TACTICAL HIGHLIGHTS

### CHANGE

### RATIONALE

Maintain a neutral position to equities across the globe



We are neutral towards U.S. equities despite the strong economy because of elevated valuations. Valuations remain attractive outside the U.S. despite economic concerns

Overweight Canadian investment grade bonds



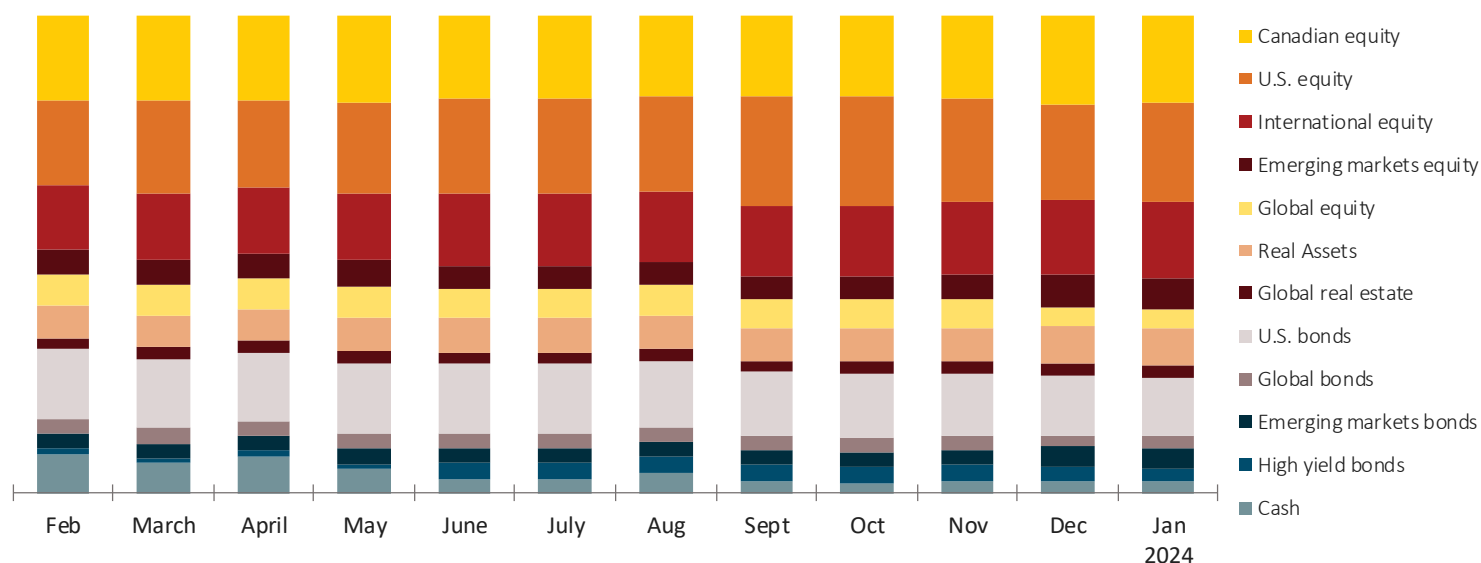
We expect monetary relief to come to Canada sooner than to the U.S. This coupled with higher quality issuers could mean less credit risk for the Canadian investment grade bond sector

Underweight high-yield bonds



Higher cost of credit could induce a stress in the riskier parts of the corporate high-yield debt market

## TACTICAL ALLOCATIONS | SUN LIFE GRANITE BALANCED PORTFOLIO



► *Continued from previous*

While the U.S. economy has held up remarkably well under the weight of high interest rates, other economies around the world are struggling. Growth rates were muted in the Euro zone and Canada. Japan unexpectedly slipped into a recession in Q4 2023. China is trying to break free from the grip of deflation.

As for positioning, we are neutral towards equities across all geographies. While U.S. equities are seeing upward earnings revision on the back of resilient consumer spending, we feel they have run up too far too quickly. Given current elevated valuations and the dominance of a handful of stocks driving U.S. gains, we think equity markets will struggle to increase a lot from here. On the other hand, any U.S. interest rate cut may boost equities everywhere else.

Within fixed income, we are overweight Canadian investment grade bonds that are dominated by high-quality issuers. Further, as the Canadian economy slows in the wake of higher interest rates, we expect interest rate cuts to come sooner to Canada. This should broadly help performance of Canadian bonds compared to other regions. We are underweight both high-yield bonds and emerging market bonds as the effect of high interest rates continue to play out with a lag.

Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Investors should read the prospectus before investing. The indicated rates of return are the historical annual compounded total returns including changes in security value and reinvestment of all distributions and do not take into account sales, redemption, distribution or other optional charges or income taxes payable by any securityholder that would have reduced returns. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated.

This document is provided for information purposes only and is not intended to provide specific individual financial, investment, tax or legal advice. Views expressed regarding a particular company, security, industry or market sector should not be considered an indication of trading intent of any mutual funds managed or sub-advised by SLGI Asset Management Inc. These views are not to be considered as investment advice nor should they be considered a recommendation to buy or sell.

Information contained in this document has been compiled from sources believed to be reliable, but no representation or warranty, express or implied, is made with respect to its timeliness or accuracy. This document may contain forward-looking statements about the economy, and markets; their future performance, strategies or prospects. Forward-looking statements are not guarantees of future performance and are speculative in nature and cannot be relied upon.

Sun Life Global Investments is a trade name of SLGI Asset Management Inc., Sun Life Assurance Company of Canada and Sun Life Financial Trust Inc.

SLGI Asset Management Inc. is the investment manager of the Sun Life Mutual Funds, Sun Life Granite Managed Solutions and Sun Life Private Investment Pools.

© SLGI Asset Management Inc. and its licensors, 2023. SLGI Asset Management Inc. is a member of the Sun Life group of companies. All rights reserved.



**Sun Life Global Investments**

1 York Street, Toronto, Ontario M5J 0B6

T: 1.877.344.1434 | E: [info@sunlifeglobalinvestments.com](mailto:info@sunlifeglobalinvestments.com)

[sunlifeglobalinvestments.com/Commentary](https://sunlifeglobalinvestments.com/Commentary)

Follow Sun Life Global Investments on [Twitter](#) or subscribe to our [YouTube](#) channel.