Sun Life Global Investments

2025 Market Views

ADVISOR USE ONLY

Contents

Foreword

We're proud to present the second annual edition of our **Sun Life Global Investments' Market Views.** Our focus remains to help you solve clients' complex needs and build their investment portfolios.

"Diversification matters" is a key theme for us in 2025. In that spirit, I invite you to partner with us and discover our solutions and resources that can provide diversification benefits across your business.

Oricia Smith
President, SLGI Asset Management Inc.
and Senior Vice-President, Investment Solutions,
Sun Life Canada

Sun Life
Global Investments

Backed by Sun Life – One of the top 25 global asset management firms in the world[1]

Our ambition for Sun Life Global Investments is to be the asset manager of choice in Canada throughout the savings, retirement and estate transfer phases. We bring you the best of Sun Life's asset management businesses to Canadian clients. This new edition includes perspectives from our Multi-Asset Solutions Team and our diverse line up of sub-advisors.

Asset class outlooks include:

- MFS Investment Management (MFS)
- Sun Life Capital Management (Canada) Inc. (SLC)
- Aditya Birla Sun Life Asset Management Company Ltd.
- Crescent Capital Group

Our broad fund lineup accesses regions and sectors poised for continued growth. This allows us to offer investment solutions to match the evolving needs of clients. Helping them feel confident about their financial security connects us to Sun Life's broader purpose and drives our business as we continue to evolve products and solutions.

We can help you provide your clients with income and stability through diversification, through our suite of fixed income products. Recently, we reduced fees in Sun Life Core Advantage Credit Private Pool, Sun Life Crescent Specialty Credit Private Pool and Sun Life MFS Canadian Bond Fund. Also, we recently introduced Sun Life MFS Global Core Plus Bond Fund, an actively managed global fixed income fund.

Our Multi-Asset Solutions Team

To deliver better risk-adjusted returns, we must prepare to invest across a diverse range of economic scenarios as 2025 unfolds. Factors such as high stock valuations, falling interest rates, the return of Donald Trump as U.S. president, ongoing global geopolitical tensions and other market moving events are shaping how we position our risk-managed portfolio solutions for future success.

Every client is unique, which is why desired client outcomes drive how you construct portfolios for your clients. That's why Sun Life Global Investments created our new Portfolio Construction & Investment Strategy team – dedicated to providing advisors with better insight into their portfolios.

Foreword

With the right inputs, tools and investments, we can also help advisors construct more resilient portfolios to help their clients accumulate wealth, and generate income in retirement.

Leveraging our sub-advisors' global experience

MFS, who recently celebrated their 100th year anniversary, continues to offer time-tested portfolios to help grow assets for investors across the world. We bring this expertise to the Sun Life MFS Funds in Canada.

Canadian investors can also access **SLC's** capabilities in the fixed income and alternative-investment spaces. Diversification remains key to balanced portfolios, with many investors seeking to diversify outside of traditional asset classes such as alternative investment solutions.

Our purpose

We are here to help Canadians and their families achieve lifetime financial security.

Striving to be a leader in retirement and estate planning, we believe that robust planning is more important than ever to help every Canadian achieve what matters to them most at every life stage. With over five million Canadians set to retire in the coming years - and only 50% of Canadians in retirement having advice[2] – our mission to offer holistic advice is critical to help advisors and clients.

Committed to be your trusted partner

We know that advisors want to work with selected trusted partners to support and grow their businesses. We strongly believe that Sun Life Global Investments has what it takes to earn your trust. Designed to help you give impactful advice and build meaningful, lasting client relationships, we offer mutual funds, segregated funds, payout annuities, and insurance and trust GICs.

Aiming for holistic advisor support, we also offer insights, events, education, model portfolio factor analysis and tools, business development support and tax and estate consultation services.

While we can't predict what's ahead for 2025, we hope this report provides you with confidence about the market and our products. We remain optimistic about the opportunities ahead and look forward to strengthening our partnership with you.

[1]Based on Total AUM as of December 31, 2023. Source: The world's largest 500 asset managers – October 2024 report by Thinking Ahead Institute.
[2]Canadian Association of Retired Persons (CARP) study, July 2024.

How we differentiate ourselves

- Learn more about our Practice management consulting
- Visit our Diversification Hub
- Discover insights from our Tax & Estate Planning DAPs
- To leverage our bespoke model portfolio construction service, contact your wealth sales team

Key themes for 2025

Chhad Aul
Chief Investment Officer and
Head of Multi-Asset Solutions,
SLGI Asset Management Inc.

Sun Life
Global Investments

What's ahead this year?

- America 1st?
- The Federal Reserve charts a path to its "terminal" destination
- 3 potential paths for the global economy
- Beyond the Magnificent 7
- Be active for an edge in 2025

1. America 1st?

- U.S. equity markets have outperformed the rest of the world since 2023. Powering this ascent have been U.S. large-cap technology stocks and the artificial intelligence (AI) theme, as well as the relative-strength of the U.S. economy.
- More recently, the return of Donald Trump as the next U.S. President and his "America First" policies of tax cuts, regulatory easing and trade protectionism have led markets to double down on U.S. assets including the U.S. dollar (US$).
- So, what are markets pricing in now? President Trump's threats about tariffs may not be as severe as initially feared. However, we do expect tariffs to drive volatility and performance across many asset classes in 2025 (see #4 on the next page).

2. The Federal Reserve charts a path to its "terminal" destination

- From 2022 to mid-2023, global policy interest rates headed in one direction – up.
- Following a prolonged period of higher rates, key central banks started on a clear rate-cutting trajectory in mid 2024.
- While rate cuts are likely to continue in early 2025, the interesting question for markets is at what rate will the Fed cut and where is the landing point (so called "terminal rate").
- Discovering the terminal rate is likely to be an experimental process for the Fed and other central banks, as they test how incoming inflation and growth data responds to declining rates. This process is likely to be a key driver of underlying sentiment in both equity and fixed income markets.

3. Potential paths, for the global economy

- Our base case, or first potential path is a soft landing for the global economy, where inflation normalizes without tipping into a recession. The other two paths are the threat of a hard landing (recession) or a no-landing (re-accelerating inflation, notably in the U.S.) likely to test markets in 2025.
- Policies of the new U.S. administration may exacerbate regional divergences. Many of these policies may spur inflation and put the U.S. at a risk of a "no-landing," while increasing the risk of a hard-landing for the rest of the world.

Key themes for 2025

4. Beyond the Magnificent 7: Earnings set to improve with attractive valuations

- **Earnings growth broadened out in 2024** – After a period of concentrated earnings growth in the S&P 500 Index (driven by Apple, Microsoft, Amazon, Alphabet, Meta, Nvidia, and Tesla, referred to as "Magnificent 7"), earnings growth has broadened to include more companies in the S&P 500 and we expect this trend to continue globally.
- **The S&P TSX Composite Index** – It has outperformed many of its peers (as of early December) because earnings bottomed out early 2024 and will achieve positive earnings growth in 2024.
- **Earnings growth for developed market equities** – Excluding U.S. (Europe, Australasia, and the Far East) and emerging markets equities (EM), earnings growth is still negative with weak earnings. However, positive earnings growth is expected in 2025.
- **Better risk-reward potential for investors** – This is due to improving earnings growth and attractive valuations for the S&P 500 outside of the Magnificent 7 and the rest of the world.

5. Be active for an edge in 2025

- Increasing breadth of earnings growth and valuations re-rating higher globally is a great environment for active management.
- Active management can also exploit asset price mispricing that arises from diverging global central bank policies and a still uneven economic recovery.
- Geopolitical shifts and supply chain realignments also mean different sectors and regions may benefit.
- Finally, any remaining macro uncertainties such as trade tariffs may require active risk management.

Increasing breadth of earnings growth and valuations re-rating higher globally is a great environment for active management.

Diversification: Beyond asset classes

Badan Fong
Director,
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SLGI Asset Management Inc.

Sun Life Global Investments

The premise behind asset allocation is that diversification can be a key risk-management strategy. Most client portfolios are typically constructed by selecting a number of different asset classes, which effectively puts the advisor in the position of being an "asset allocator." As one part of the portfolio zigs, another may zag, but on balance advisors seek to generate strong risk-adjusted returns for their clients.

Also, most investors tend to think of diversification through asset classes – primarily:

- cash,
- stocks,
- bonds, and
- alternatives.

These are the most widely accepted classifications of assets recognized for diversification and portfolio construction. As a result, investors often think of them as broad categories with different risk and return attributes, and that combining them leads to a diversified portfolio.

Another lens to boost portfolio construction

Asset class mix will always be a core consideration for diversified portfolios for many reasons. But what may surprise some is that a portfolio's risk and return can also be evaluated through "factors" which can be defined as any attribute that can impact an asset's risk and return. Factors can be grouped into two categories – **style** and **macroeconomic**. Sometimes stocks and bonds can have overarching factor exposures that may potentially impact a greater-than-expected share of a portfolio. So, it's also important to understand diversification from the perspective of factors to mitigate potential unintended risks.

CONTINUED

Diversification: Beyond asset classes

An example of macroeconomic factor impact

Inflation, and consequently interest rates, have been topical for the last few years. Let us examine the interest rate factor as it is familiar to most of your clients. While interest rate risk is often associated with fixed income, we're less likely to think of interest rates as a driver of risk and return for equities. Equity sector impact from interest rate movements can vary, but let's look at a sector that's been a key driver of returns – information technology.

Many technology companies' valuations are based on distant future earnings and sales, which means that changes in the discount rate (closely tied to interest rates) used to estimate current valuations can trigger a lot of price volatility. This illustrates that interest rates, as a factor, can affect different asset classes concurrently and lead to unintended concentrations of specific factor risk. Some other macroeconomic factors are similar.

Introducing the Portfolio Construction & Investment Strategy Team (PCIS)

Unfortunately, factor analysis isn't easy for many advisors due to a lack of access to analytics tools and resources. That's why Sun Life Global Investments created the PCIS team – dedicated to providing advisors with better insight into their portfolios, including the unique lens of macroeconomic and style factors. Ultimately, our view is that a key step of the portfolio management process, for both advisors and institutions, should include the appropriate asset mix and the portfolio's factor composition. With PCIS' insights, advisors can take comfort in knowing their portfolios have been subjected to rigorous analysis to achieve a deeper understanding of their portfolios.

To leverage our bespoke model portfolio construction service, contact your wealth sales team.

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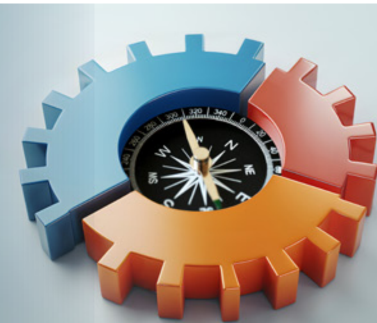


Canadian fixed income

MFS Investment Management

Still looking strong – Constructive on Canadian fixed income for 2025

Following a sustained period of heightened interest rates, the Bank of Canada (BoC) has now pivoted by initiating its easing cycle in June 2024. This shift to an accommodative stance has been favourable for Canadian fixed income and we expect this to continue in 2025.

One of the catalysts for the pivot was the progress made on the disinflation front. Both headline and the BoC's preferred measures of core inflation have trended lower and consistently remained around target. We believe the BoC has room to cut interest rates further towards neutral given its increasing confidence that inflation is now largely under control. Regarding growth, real GDP growth has remained positive. A large driver of this is attributable to open immigration policies that has bolstered Canada's economy. Despite this, we have seen signs of softness, especially on a per capita basis. Unlike the U.S., Canada has proven to be a more interest rate sensitive economy given the impact of higher interest rates on domestic demand. This has been evident as Canadian households have been cautious of elevated interest rates, which has put pressure on mortgage payments and consumer spending.

With inflation now largely contained and the BoC expressing its desire to boost economic growth, it seems likely that the BoC will continue easing monetary policy, which will further promote a loosening of financial conditions, a stabilization of fundamentals and a softening of pressures of mortgage payments and upcoming renewals. Against this backdrop, we anticipate policy divergence between the BoC and the U.S. Federal Reserve reflecting the differences in inflation profiles and growth prospects between the two countries. Upcoming rate cuts will be positive for duration and given the divergence, our outlook on Canadian duration is more constructive relative to the U.S.

While our outlook remains positive, there are potential headwinds that warrant monitoring in 2025. This includes impending mortgage renewals, the threat of potential U.S. tariffs, the implications of stricter immigration policies and a federal election. Nevertheless, we believe the opportunity in Canadian fixed income is still attractive as monetary easing cycles have historically provided a favourable backdrop for fixed income returns. Further, the asset class is well supported by stable fundamentals and healthy technicals. While spread valuations are quite expensive given the tightness of spreads, all-in yields still trade at attractive levels. Canadian investment grade bond yields are currently at slightly above 4%, which is positioned around the 75th percentile mark over the last 10 years.[1] In our view, this is a compelling valuation story. This is what we call the strategic power of entry points, i.e., starting yields historically have had a strong relationship with long-term returns for the long-term fixed income investor. Overall, we believe Canadian fixed income is well positioned for the year ahead.

[1]Source: Bloomberg. Bloomberg Canada Aggregate Corporate Index. Data as of 8 Jan 2025

Global fixed income

MFS Investment Management

Outlook is constructive, but regions & sectors differ

We remain broadly constructive on global fixed income, but there is some differentiation across sectors. On **U.S. duration**, a soft landing, progress towards disinflation, along with further potential U.S. Fed Reserve (the Fed) rate cuts are generally supportive of long duration. However, the impact of Trump 2.0 may complicate the rate outlook. Concerns are growing over the potential inflationary effects of the new policy program. While market pricing of Fed policy expectations may be too conservative, we have moved to a neutral stance on duration, reflecting renewed inflation concerns.

On **eurozone (EUR) duration**, amid ongoing European Central Bank (ECB) rate cuts, the moderating inflation trajectory and a challenging growth backdrop, the stars appear to be aligned for long duration in the eurozone. Core eurozone economies face major growth headwinds, both in Germany and in France. In our view, with the balance of risks skewed towards accelerated ECB policy easing, the case for long duration is compelling.

On **U.S. investment grade (IG) corporates**, the macro backdrop remains positive, including a high probability of an economic soft landing. Asset class fundamentals, while off post-covid peaks, remain adequate, especially after recent margin and free cash flow improvements. However, the spread valuation picture remains challenging, resulting in an overall valuation assessment, which does not compare favourably with other segments of global fixed income. While the outlook for total returns remains constructive, the risk/reward is not as compelling as for other asset classes, mainly reflecting the tight valuation. On this basis, we maintain a cautious stance towards the asset class.

On **U.S. high yield (HY)**, fundamentals remain robust, helped by historically low levels of leverage and strong free cash flow generation. Other positive drivers include low default rate projections, attractive breakeven yield valuation and a supportive macro-outlook. The risk/reward may be attractive for investors who may consider deploying credit risk exposure. While we are not concerned about the maturity wall, spread valuation looks stretched, so security selection is key.

Moving to Europe, **EUR IG** is supported by sound fundamentals, a fixed income-friendly macro environment and robust technicals. The ECB easing cycle is likely to boost investor sentiment towards EUR credit. While the spread valuation backdrop has become more challenging, spreads remain cheaper than in the U.S. Based on our assessment of asset class fundamentals, valuation and technicals, we believe that this is one of the most attractive opportunities across global fixed income.

On **EUR HY**, the macro backdrop and strong fundamentals, including favourable net leverage, support the asset class. Risk appetite towards riskier assets in the region is likely to benefit from the ongoing ECB-easing cycle. The asset class has shown resilience and remains attractive for the investor with high risk tolerance. Security selection remains key, given the dispersion of fundamental stories at the security level.

Finally, on **emerging market (EM)** debt, fundamentals have deteriorated somewhat recently, mainly reflecting higher fiscal risks. The valuation backdrop remains favourable on a total-yield basis, despite tight spreads. Watch for the impact of global risks, ranging from Trump 2.0 to geopolitics to China's structural headwinds. EM debt has so far shown remarkable resilience after the U.S. election, contrary to initial concerns. With total yield valuation still compelling, EM debt continues to be attractive. Given the significant risks, country selection will be key, however.

Canadian equities

MFS Investment Management

A favourable macro environment should support Canadian equities in 2025

Canadian equities, represented by the S&P/TSX Composite Index, had an impressive run last year, with a nearly 18% increase as at December 31, 2024.[1] The third quarter (Q3 2024) saw particularly strong returns due to signs of economic recovery, rate cuts, and improved investor sentiment. Following a contraction in late 2023, the economy bounced back and is projected to grow steadily in 2025. Inflation has eased into the Bank of Canada's target range, initiating the rate-cutting cycle. Since June 2024, the central bank has cut rates by 175 basis points, lowering the policy rate to 3.25%. Markets are pricing in between two and three rate cuts by the end of 2025. Canadian households, burdened with one of the highest levels of debt among the G7 nations, have experienced the strain of elevated mortgage rates during the rate-hiking cycle. However, some relief is on the horizon as the anticipated rate cuts begin to take effect and consumer spending is expected to improve. The combination of reaccelerating growth and a favourable rate outlook bodes well for equities in 2025.

However, there are a few risks that need watching. A potential headwind for Canadian equities is the uncertainty from trade relations with the U.S. as president Donald Trump has proposed a 25% tariff on Canadian imports, including crude oil. Although the current United States-Mexico-Canada Agreement would shield Canada from these tariffs, there is a risk that the U.S. could withdraw from the agreement entirely. This would cause potential disruptions to sectors reliant on U.S. exports, such as energy and manufacturing. Currently, over three-quarters of Canada's goods exports go to the U.S., with key exports being energy and motor vehicles.

Financials are well positioned. A more favourable outlook for Canadian equities can be found within the financials sector, which constitutes a significant portion of the Canadian equity market. Following lackluster performance in the first half of 2024, Financials saw close to a 27% increase in the second half of 2024 as the Bank of Canada began cutting rates.[2] With the yield curve steepening, banks are expected to see improvements in their profit margins. The technology sector, which has gained more prominence within Canadian equities, is also among the top performers. We believe the technology sector could continue its growth trajectory in the coming year, driven by the surge in artificial intelligence advancements. From a fundamental standpoint, Canadian equities are relatively cheap compared to U.S. equities, making them an attractive asset class for Canadian investors.

[1]Source: FactSet, S&P/TSX. Daily data from 31 December 2023 to 31 December 2024. Return is gross and in CAD.
[2]Source: FactSet, S&P/TSX. Daily data from 30 June 2024 to 31 December 2024. Financials represented by S&P/TSX Composite Financials Index. Return is gross and in CAD.

U.S. equities

MFS Investment Management

Amid elevated valuations, earnings must take the lead

Equity market tailwinds reflect the current macro environment. With the S&P 500 Index having jumped more than 75% (in CA$ terms) in 2024 from its October 2023 lows,[1] valuations are quite full, leaving little room for further price-to-earnings (P/E) expansion. However, the economic backdrop is favourable, with inflation trending toward target, albeit at a slower pace than the U.S. Federal Reserve (the Fed) may like, and economic growth is well underpinned. The U.S. labour market has come into better balance with the unemployment rate stabilizing near 4%[2] and job growth slowing to a more sustainable pace. High frequency data, such as weekly jobless claims show no signs of deterioration in the labour market outlook, a supportive sign for consumers. The Fed is expected to continue to ease monetary policy, though likely at a slower pace than previously anticipated.

Against this robust economic backdrop, the new Trump administration is expected to implement low tax, pro-growth, deregulatory policies. This has driven market confidence, which has lifted cyclical sectors and broadened the market rally beyond a narrow set of mega-cap technology stocks. We anticipate this trend to persist. Greater performance dispersion within benchmarks can create opportunities for active management. Small cap stocks tend to benefit from a falling interest rate environment. Due to their more domestic orientation, small caps are more exposed to the strong U.S. growth outlook and less exposed to any potential tariffs. It also appears that markets have responded positively to the prospect of smaller government under a second Trump administration.

On tariffs, the policy mix of Trump 2.0 brings with it uncertainty as tariffs are likely to be a key tool in the president's action plan as they were in his first term. On balance, economists expect higher trade barriers to be stagflationary, though it is difficult to model their impacts given that there are so many variables, such as U.S. trading partners imposing retaliatory tariffs of their own. As a result, we think uncertainty could be a factor in restraining animal spirits as 2025 unfolds.

The U.S. financial sector is likely to benefit from a reduced regulatory burden under Trump 2.0. The odds of the largest U.S. banks having to set aside additional capital are greatly diminished. A shift in focus regarding antitrust is likely to unleash a wave of mergers and acquisitions in coming years, along with an increase in initial public offerings, all of which may boost the financial sector's bottom line.

Overall, with valuations already at lofty levels, we think growing corporate earnings will need to drive returns. In addition, robust security selection will be key as investors navigate an increasingly tricky landscape.

[1]FactSet, as of 12/31/24
[2]US Bureau of Labor Statistics, as of 12/31/24

International equities

MFS Investment Management

Regional dynamics driving divergent outcomes – Still chasing the U.S.

Developed international equities lagged both Canadian equities and the mega-cap tech dominated U.S. markets through November 2024. Regionally, the UK outperformed its developed market peers as inflationary pressures eased more quickly than expected, leading to the Bank of England's first interest rate cut in four years in August 2024.

Japan followed up 2023 with another strong showing in 2024. Japanese markets continue to benefit from corporate governance reform and the reflationary trade. However, volatility increased following the Bank of Japan's surprise interest rate increase in July 2024 and the subsequent strengthening of the yen. The Eurozone lagged other major developed markets due to ongoing political issues in France and industrial challenges in Germany.

Divergent outcomes are expected in developed markets. Japan's earnings outlook remains positive despite some domestic political concerns. The UK, with sizable exposure to financials, appears poised to outperform as inflation and interest rates decline. Additionally, the UK's forward price-to-earnings (P/E) multiple is 11.6x,[1] below the long-term average. Meanwhile, uncertainty in the Eurozone remains high, due to ongoing political issues in France and a challenging growth outlook, should U.S. tariff policy impact the region's export economy.

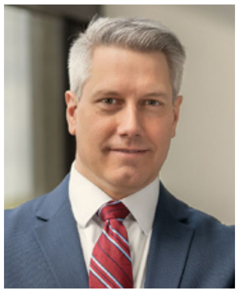
The outcome of the recent U.S. election also presents a potential headwind for emerging market equities. The strong U.S. dollar (US$), along with the threat of potential tariffs, could pose major risks especially for China. The rebound in Chinese equities has been a welcome relief. But we have some doubt about the momentum ahead, unless the Chinese authorities surprise the market on the upside with an outsized stimulus package. China may need to reduce its export dependency to sustain growth, as structural issues within the country persist, which will likely require larger fiscal stimulus measures to support both consumers and the property sector.

On a more positive note, India continues to benefit from global supply chain re-organization, demographic tailwinds, and structural reforms. Now at almost 20%[1] of the MSCI EM index, India may appear expensive by historical standards, trading at just over 23x[1] forward earnings, although earnings are expected to grow at a robust 16% in 2025.[1] Meanwhile, Taiwan remains well positioned on the back of strong semiconductor demand. At the other end of the spectrum, Brazilian equities may continue to face major challenges as the domestic consumer remains stifled by high interest rates and commodity exporters suffer the impact of weak global demand, especially from China.

Overall, emerging market equities, trading at 11.9x[1] forward earnings, appear to be cheap on a relative value basis by historical standards, but several global risks, ranging from currency dynamics to geopolitics, need to be considered.

[1]FactSet. Data as of 30 November 2024. Forward = next-twelve-months.

Private credit: Investment grade



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SLC Management

Robust activity, growing volumes continue to drive markets in 2025

The investment grade (IG) private debt market had a record year of new investment activity in 2024. According to data from Private Placement Monitor, volumes surpassed the prior record of US$108 billion set in 2021. As at the end of October, year-to-date 2024 volume was US$113 billion and expected to close the year far above the US$120 billion mark. While a number of issuers took a "wait and see" approach in 2023 for non-urgent financing needs, there were a higher number of issuances in 2024 following the start of interest rate cuts and an issuer base, which came to grips that cuts in the U.S. Federal Reserve's rates might not move to longer duration Treasury rates much at all.

Volume growth in 2024 was driven by industrials, including several large investments in the manufacturing (e.g., chips and batteries) and energy (e.g., liquefied natural gas, pipelines) sectors, followed by the financial sector (e.g., asset managers, real estate investment trusts) and utilities. There were over 10 deals that raised more than US$1 billion, exceeding last year's number of large transactions. In addition, 2024 saw more transactions that were oversubscribed by multiple times, putting downward pressure on spreads throughout the year compared to 2023 as competition intensified, perhaps in part due to historically low spreads in public IG corporate bond markets. Nonetheless, investors generally remained disciplined in underwriting, with no material loosening on terms and covenants, demonstrated by several deals not getting circled this year due to credit or structural concerns.

Our 2025 outlook: "Building on the momentum"

Last year, we predicted a robust year of activity for 2024 buoyed by an expectation of declining interest rates, lower inflation and pent-up issuer demand from the previous year. At the time of this writing,[1] 2024 is slated

Private credit: Investment grade

to be a record year of activity, and we believe 2025 is poised to build on this momentum. Geopolitical risk remains a concern, and the new U.S. administration's policy impacts on regulation, tax cuts and tariffs remain uncertain. However, the continued cycle of interest rate cuts across multiple geographies and further cooling of inflation is expected to boost corporate investment, merger-and-acquisition activity and deal flow in 2025. Also, we expect to see a stronger pipeline of deals in January and early February, as some issuers delayed entering the market around the U.S. election cycle in the last quarter of 2024.

Sector leaders for volume in 2025 should continue to include industrials, energy and financials. Growth areas such as private asset backed securities (ABS) should also add diversification and boost relative value opportunities. Capital investment in fast growing sectors such as digital infrastructure (e.g., data centers, fiber optics), which is needed to accommodate the evolution of AI, will create further financing opportunities. Of course, the year could bring challenges. We anticipate sustained headwinds in real estate markets, which are seeking greater stability and return to pre-COVID trading levels. Other sources of uncertainty include impacts of changing government investment priorities in public infrastructure and regulatory landscapes.

A number of key trends in 2024 are expected to continue into 2025, including more large transactions (greater than US$1B), strong investor appetite and a very competitive market. Barring any unforeseen macroeconomic market disruptions, spreads on average are anticipated to see continued downward pressure in 2025 across IG private credit markets. Nonetheless, we expect relative value to public markets to remain in line with historic trends. The attractive risk-adjusted returns that can be generated by experienced investors with scale and deep sector expertise will continue to anchor the growth of IG private credit activity in 2025.

Key takeaways

- IG private credit markets experienced robust volume growth in 2024
- We believe 2024's positive momentum could carry into 2025
- Growth in asset backed securities and digital infrastructure investment may also drive markets

Source: Private Placement Monitor, 2024–5.
[1]As of December 19, 2024

A number of key trends in 2024 are expected to continue into 2025, including more large transactions (greater than US$1B), strong investor appetite and a very competitive market.

Private credit: Below investment grade

Chris Wright
President and Head of
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Crescent Capital Group

Chris Wang
Managing Director,
Crescent Capital Group

CRESCENT

Cycle-tested values key to capturing today's attractive private credit opportunities

The private credit market remains highly attractive today, as its value proposition to both borrowers and investors remains clear and robust, in our view. Capital formation continues to shift on a secular basis to private credit as borrowers value the certainty of execution and ease of use that relationship lenders provide. Furthermore, investors continue to value the attractive yields, high current income and better lender protections in more conservative capital structures that can be found in private credit.

The asset class is poised to benefit from expectations of continued U.S. economic strength, lower taxes, market-friendly regulations and growth-oriented policies from a second Donald Trump presidency. These economic tailwinds, when combined with the significant amount of dry powder on the sidelines, aging private equity portfolios and a regulatory environment more conducive to dealmaking, are expected to create the conditions necessary for an attractive mergers-and-acquisitions (M&A) environment going forward.

At the same time, protectionist trade policies and immigration reform in an already-tight labour market should put upward pressure on inflation, likely resulting in a higher-for-longer rate environment. We view a higher rate environment as a positive for fundamental credit. President Trump's proposed economic policies are centred around driving economic growth in a more benign operating environment, which we expect to drive top-line growth across U.S. middle market companies.

It is important to remember that a higher rate environment can have a burdensome effect and pressure cash flows for borrowers, resulting in increased defaults and non-accruals. This potential for prolonged credit stress reinforces the importance of manager selection and the need for disciplined credit underwriting with a focus on capital preservation, strong free cash flow generation, and robust debt service coverage. The growing dispersion of performance and returns across managers is expected to accelerate as rates stay elevated.

Private credit: Below investment grade

Increasing importance, difficulty in evaluating private credit portfolios

Assessing the performance of private credit managers and their portfolios can be challenging. Most private credit managers have never invested through a full market cycle. This makes it difficult to underwrite how their investment returns, default rates and recovery rates would look through a recession or a prolonged period of elevated interest rates. Further compounding the issue is that default rates today may not reflect true underlying performance, as credit agreements can be amended to allow for payment-in-kind (PIK) interest or provide for a maturity extension before any default may occur.

Deteriorating underlying portfolio company performance in the broad market can explain the increasing prevalence of PIK amendments and the growing presence of PIK interest income in private credit portfolios. For example, PIK interest represents on average 10.5% of investment income (and as high as 18.3% of investment income) for the largest publicly traded business development companies (BDCs) today, up over 150 basis points from 8.9% just one year ago.[1]

We believe rising defaults and non-accruals across private credit manager portfolios will also test the strength and quality of the underlying credit agreements that provide contractual rights and protections to the lender. Weak credit agreements lacking fundamental protections will expose investors to the possibility of liability management exercises, in which collateral and its associated value can be taken from the lender. Investors were stunned when one of the first sponsor-funded liability management exercises of a private credit-backed company occurred during a highly public faceoff between direct lenders and a financial sponsor over a private upper middle market annual recurring revenue (ARR) loan in 2024.

Outlook for opportunities in private credit

In this extraordinary period of market transition, private credit can capture the opportunity arising from the economic strength in U.S. middle market companies and a resurgence in M&A activity, providing investors with opportunities for strong relative value and risk-adjusted returns.

We believe a higher-for-longer rate environment should result in rising credit stress across portfolios. Consequently, manager selection will be key as cycle-tested managers with robust origination capabilities, disciplined credit underwriting and hands-on portfolio management expertise will, in our view, have a higher likelihood of generating strong returns with reduced risk.

Key takeaways

- Secular trends and expectations of a market-friendly U.S. administration have created sanguine conditions for private credit investment.
- We believe a higher-for-longer rate environment should result in rising credit stress across portfolios, underscoring the importance of manager selection.
- Private credit is poised to capture potential opportunities from strengthening U.S. middle market companies and increased M&A activity.

Sources: Bloomberg, Private Placement Monitor, 2024–5.
[1]Ten largest publicly traded BDCs by market capitalization as of December 16, 2024, excluding 2024 IPOs: ARCC, BXSL, FSK, GBDC, GSBD, MFIC, NMFC, OBDC, PSEC and TSLX. Data from Bloomberg.

India & emerging markets

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ADITYA BIRLA GROUP

Why we think India's bull market may continue to run

India's recent bull market has been supported by a focus on political stability, avoidance of geopolitical tensions, macro stability, fiscal consolidation and the declining oil intensity of the economy. The consequent drop in inflation volatility has made growth more predictable, resulting in a fall in India's equity market beta and a rise in equity valuations. Fiscal consolidation is creating space for private borrowing and spending to fuel the next leg of earnings growth and simultaneously put a lid on inflation and its volatility.

We also see a structural rise in Indian equities as both households and global investors invest more in Indian equities. India's current bull market is about to become the longest in its history, beating its 2003-08 bull market.

Bull market contributors

Macro policy: A declining fiscal deficit could make way for more productive private investments. This could extend India's earnings cycle, making current valuations more attractive than they currently look.

Deep tech: India is not ordinarily recognized to be engaged in advanced technology – but the emergence of start-ups and agriculture tech holds promise for India's growth rate as it attempts to solve some of India's stickier problems.

External dynamics: India needs less oil than before, and the prospects of more free trade agreements and trading of the Indian Rupee may fuel earnings growth.

Lending boom: Credit is about to be more accessible with an expected positive impact on earnings growth, which is also likely to help a consumption boom.

Consumption boom: The breadth of India's income pyramid lends itself to momentum in consumer spending, which is likely to benefit as it has crossed the crucial US$2,000 per-capita GDP level. This is a main anchor to multinational corporations' interest in India.

Energy boom: With rising access to energy, India's per capita energy consumption is likely to catapult in the coming decade with both a transition in source of energy as well as boosting economic growth.

India & emerging markets

Key portfolio themes

Benign credit conditions and capital spending on large scale infrastructure and industrial projects will continue to lift India's economy. As economic growth stays strong and interest rates peak, we think domestic cyclical sectors will benefit. Financials, consumer and industrial cyclicals can outperform in these conditions. On the other hand, we think defensive sectors such as consumer staples, utilities and healthcare could underperform.

Why India premium is justified

India's high price-to-earnings multiple (P/E) (albeit still lower than previous bull market peaks) is a source of constant debate as to whether the India story is fairly reflected in the price of Indian equities.

Here are three reasons as to why we believe that India's high P/E is justified.

1. A long and strong earnings cycle that implies the current multiple may not be that rich.
2. India's terminal growth rate is likely higher than the rest of the world.
3. Lower inflation volatility has dampened future growth volatility, which means investors are settling for lower prospective returns or driving the P/E higher. This confidence is rooted in improved macro stability and a reliable domestic source of risk capital. resulting in India's beta vs. emerging markets has fallen to 0.4 from 1.3 a decade ago.[1]

The biggest risk for India is a potential slowdown of global growth. China policy action, U.S. interest rate decisions, U.S, policy actions, oil prices and geopolitics are global factors at play. We believe company earnings for India remain in an upcycle and a recovery is on hand.

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India & emerging markets

Emerging markets: substantial opportunities amid a mixed landscape

Emerging markets (EMs) in 2025 are set to navigate a mixed landscape influenced by global economic trends, domestic reforms, and external pressures from 2024. A potential easing of monetary policies in advanced economies may improve capital flows into EMs, while a softer U.S. dollar could alleviate currency pressures, especially for nations with high external debt. China's recovery, bolstered by late-2024 fiscal stimulus, may support growth in Asia and Africa, alongside revitalized Belt and Road Initiative projects.

Geopolitical dynamics, including diversification of trade away from traditional hubs present opportunities for countries like India, Vietnam, and Mexico to strengthen global supply chain roles. With hopes of the Trump administration having a renewed focus on stabilizing the Middle East, new trade routes through the region would likely improve the trade between Europe and South Asia.

The Indian economy is expected to maintain robust growth, underpinned by ongoing reforms and strong domestic demand. Policy continuity from Prime Minister Narendra Modi's administration will likely emphasize manufacturing, infrastructure development, and digital transformation. The country is positioned to benefit from global shifts that favour trade between friendly countries, an expanding services sector, green investments and renewable energy projects.

Domestic policy reforms are expected to take centre stage, with countries like Indonesia, South Africa, and India focusing on structural changes to boost growth. Green finance and sustainable investments are likely to gain traction, benefiting economies that prioritize renewable energy and decarbonization. The demand for stronger profitability could produce efficiency gains from these projects. The push for regional trade agreements may enhance intra-regional trade. The late 2024 BRICS[2] conference, though invited a threat of aggressive sanctions from the U.S. On the other hand, it is a sign that regional partnerships between emerging markets are gaining momentum.

Geopolitical instability, debt vulnerabilities in highly leveraged economies, and climate-related disruptions impacting agriculture and infrastructure could pose risks for EMs. Nonetheless, they remain resilient, supported by their growth potential, increasing digital adoption, and demographic advantages. Despite challenges, 2025 offers substantial opportunities for investors seeking exposure to high-growth economies with structural reforms and long-term resilience.

[1]Sources: RIMES, MSCI, Morgan Stanley Research
[2]BRICS+ is an intergovernmental organization consisting of ten countries—Brazil, Russia, India, China, South Africa, Egypt, Ethiopia, Indonesia, Iran and the United Arab Emirates.

Sun Life Global Investments' featured mutual funds and solutions

Asset Class	Featured Funds	Featured segregated funds	Sub-advisor
Fixed Income	• Sun Life MFS Canadian Bond Fund • Sun Life Core Advantage Credit Private Pool • Sun Life MFS Global Core Plus Bond Fund[1]	• Sun GIF Solutions Sun Life MFS Canadian Bond Investment Series • Sun GIF Solutions Sun Life MFS Canadian Bond Investment Series • N/A	• MFS • SLC • MFS
North American Equity	• Sun Life MFS Canadian Equity Fund • Sun Life MFS U.S. Growth Fund • Sun Life MFS U.S. Value Fund	• Sun GIF Solutions Sun Life MFS Canadian Equity Investement Series • Sun GIF Solutions Sun Life MFS U.S. Growth Investement Series • Sun GIF Solutions Sun Life MFS U.S. Value Investement Series	• MFS • MFS • MFS
Ex North American Equity	• Sun Life MFS International Opportunities Fund • Sun Life MFS International Value Fund • Sun Life MFS Low Volatility International Equity Fund • Sun Life Aditya Birla India Fund	• Sun GIF Solutions Sun Life MFS International Opportunities Investment Series • Sun GIF Solutions Sun Life MFS International Value Investment Series • Sun GIF Solutions Sun Life MFS Low Volatility International Equity Investment Series • N/A	• MFS • MFS • MFS • Aditya Birla
Global Equity	• Sun Life MFS Global Growth Fund	• Sun GIF Solutions Sun Life MFS Global Growth Investment Series	• MFS

[1]On June 28, 2024, the Fund underwent a change in investment objective, its management fee was reduced from 0.85% to 0.43%, its name changed to the Sun Life MFS Global Core Plus Bond Fund, and MFS Investment Management Canada Limited was appointed as the Fund's sub-advisor.

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