

Tactical Update

MARCH 2020 | Opinions as of March 25, 2020

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.

Markets started the New Year on a positive note. Phase One of a truce in the U.S./China trade war had been reached and corporate earnings were solid. Against that backdrop, we were slightly overweight equities. But on January 7, Chinese health officials identified the coronavirus (COVID-19) as the cause of a mysterious illness that had been sweeping through Wuhan, a Chinese port city of 11 million.

With the virus spreading rapidly to other countries and markets turning volatile, we quickly shifted to a neutral position in equities. We also shifted more into U.S. equities and reduced our bond allocation, including high-yield bonds. We also raised cash to take advantage of future investment opportunities. And with markets falling into bear market territory, we deployed some of that cash towards the end of March.

In equities, we adjusted our geographic weights by reducing our exposure to international markets and, as noted, added to our U.S. weighting. To help stabilize the economy and financial markets, the U.S. has proposed a \$2 trillion economic stimulus plan. Also, the U.S.

Federal Reserve Board has in effect cut interest rates to zero, and launched a quantitative easing program of unlimited scope. As a result, we believe the U.S. market is in much better shape than many others are, and the government still has more firepower to further stimulate the economy if need be.

As the virus spread across Europe, we moved from an overweight to a neutral position in international equities. We have attempted to reduce downside risk by investing mainly in high-quality companies and low-volatility equities. However, Italy and Spain have become the new epicenters of the COVID-19 pandemic, with more deaths in each country than China experienced. With so much of the European economy now at a standstill, we think that it is vulnerable to a recession. In addition, the European Central Bank has less room now to stimulate the economy by lowering rates.

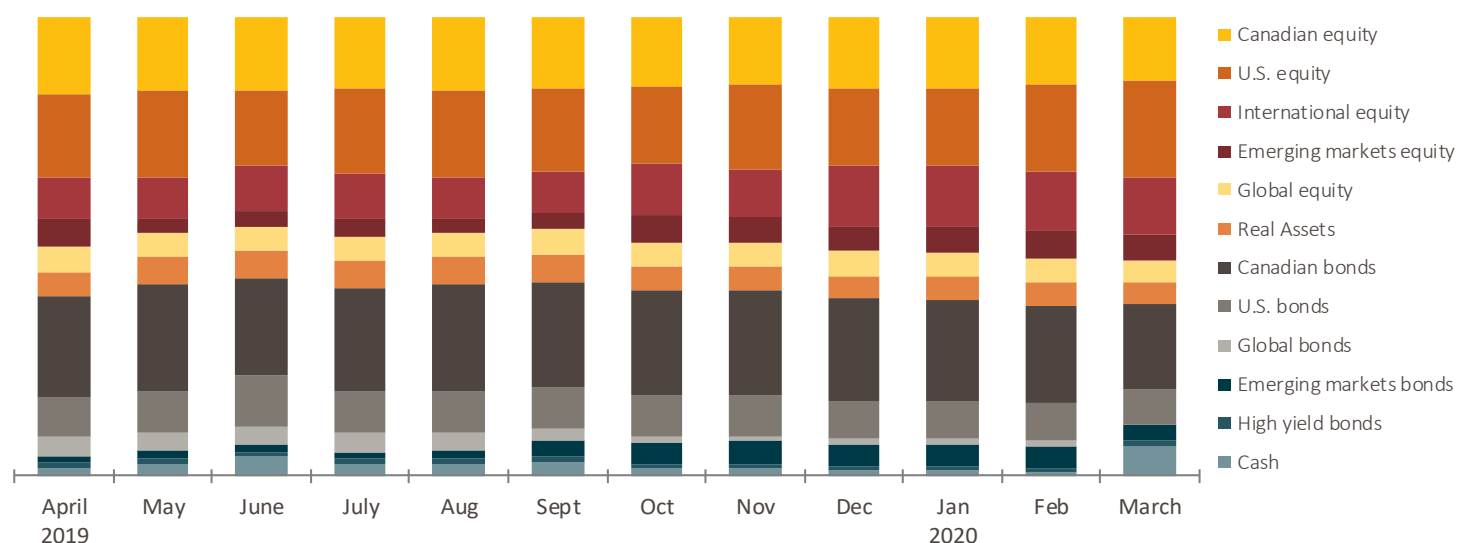
As the Chinese economy shut down, we reduced our overweight position in emerging market equities to neutral.

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TACTICAL HIGHLIGHTS

CHANGE	RATIONALE
Increased exposure to U.S. equities	► Better position than other economies to weather coronavirus
Moved to slight overweight EM equities	► China appears to have contained virus; reviving its economy
Sold bonds	► Believe yields will drift higher, after falling to near record lows
Sold calls and puts as volatility increased	► Generated higher-than-normal premium income

TACTICAL ALLOCATIONS | SUN LIFE GRANITE BALANCED PORTFOLIO



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

► Continued from previous

However, Chinese health authorities maintain that the virus is now under control with no new domestic cases. To kick-start the economy, the Chinese government has also issued a call for everyone to return to work. With production picking up, there are signs that China may be turning a corner, with positive implications for other emerging market countries. As a result, we have moved to a slightly overweight position in emerging market equities.

In addition to the COVID-19 pandemic, the Canadian economy was also hit by low oil prices, which collapsed after the Saudis and Russians failed to reach an agreement on production cuts. Prior to that, the S&P/TSX Composite Index had held up better than some other markets during the global equity selloff.

But we don't see much upside for the Canadian equity market in the short term, with benchmark crude prices falling at one point to US\$22 a barrel, and Western Canadian Select to US\$7.50 a barrel. With demand for other commodities, including copper, gold and silver, also weakening, we moved to an underweight position in Canadian equities.

As the markets declined, we took advantage of the increased volatility to generate higher-than-normal premium income by selling call and put options. We also used options to participate in upside market moves and limit our downside risk (i.e., using call options). This was beneficial when G7 governments agreed on fiscal stimulus measures, which could reach \$5 trillion..

In terms of fixed income, yields fell with U.S. ten-year Treasuries dropping as low as 0.35% at one point. We reduced our bond exposure, including high yield bonds, in favour of cash as yields continued to decline. However, with yields at crisis lows, we expect them to drift back up as economic stimulus kicks in. For now, we're watching the spread on high-yield bonds, which has been widening against comparable Treasuries. If the right risk/reward equation presents itself, we may add to our high-yield bond exposure, which is currently underweight.

Sun Life Granite Managed Portfolios invest in mutual funds and/or exchange traded funds (ETFs). Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Investors should read the prospectus before investing. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated.

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