MFS INVESTMENT MANAGEMENT®

GLOBAL PERSPECTIVE

Throughout November and the first weeks of December, central bankers, governments, international organizations, and finance officials have made unprecedented efforts to devise rescue plans for their ailing economies, businesses, and financial institutions.

Globally, we are in the midst of a synchronized economic slowdown. Monetary authorities have been loosening monetary policy in an effort to contain the damage done by the now 17-month-old credit crisis. At least 27 central banks, including those in the eurozone, the United Kingdom, Switzerland, China, and Taiwan cut interest rates in November and the first weeks of December as a deceleration in inflation gave the banks the leeway to lower rates as they sought to make credit more easily available to their consumers and businesses.

However, monetary policy is not the only tool being put to work any more. The Group of 20 leaders pledged to shore up global growth through the creation of more stringent financial regulations and new spending programs, tax cuts, and interest rate reductions. Countries from India to New Zealand have announced stimulus plans. In the United States, monetary and regulatory officials pledged to pump another $800 billion into the credit markets, and the European Union backed plans for a $265 billion stimulus package to support the region's economy. Meanwhile, investors have been encouraged by U.S. President-elect Barack Obama's new economic team and proposed economic stimulus package, which would be the biggest public investment in the nation's infrastructure since the 1950s.

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GLOBAL ECONOMIES AT A GLANCE[1]

	Central Bank Key Interest Rate (latest change)	GDP Growth (year on year as of September 2008)*	Inflation (year on year as of October 2008)	Jobless Rate (as of October 2008)
United States	1.00% (-0.50%, 10/29/08)	0.70%	3.70%	6.70%***
Eurozone	2.50% (-0.75%, 12/04/08)	0.60%	3.20%	7.70%
United Kingdom	2.00% (-1.00%, 12/04/08)	0.30%	4.50%	5.80%***
Japan	0.30% (-0.20%, 10/31/08)	-0.50%	1.70%	3.70%
China	5.58% (-1.08%, 11/28/08)	9.00%	2.40%**	4.00%***

* Note that these year-on-year GDP (gross domestic product) rates represent the trailing 12 months of growth and will differ from the "headline" numbers that show quarterly fluctuations.

** China inflation rate as of November 2008.

*** U.S. jobless rate as of November 2008. U.K. and China jobless rates as of September 2008.

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Efforts to halt the losses that have cost global equity markets more than $32 trillion this year have yet to meet with significant success. World stock markets suffered sharp declines in November and the first weeks of December as the credit crisis persisted and data indicated the likelihood of a deep and protracted global recession. Volatility rose to record levels, and investors continued to hoard cash on the sidelines amid expectations of more bad news and banking failures.

In the United States and globally, stocks came under pressure from U.S. Treasury Secretary Henry Paulson's decision to abandon a plan to use the Troubled Asset Relief Program to buy mortgage assets from banks. That reversal undermined investor confidence and sent U.S. financial shares lower and credit-default spreads to record highs. Citigroup's woes, which included more write-downs and layoffs, weighed heavily on financial stocks before U.S. officials agreed to a bailout for the bank.

On November 19, the Dow Jones Industrial Average fell below the key psychological barrier of 8,000; volatility, as measured by the Chicago Board Options Exchange Volatility Index, hit an all-time high; and U.S. Treasuries got a boost as yields on the 2-year and 10-year Treasury notes and 30-year Treasury bonds fell to their lowest levels since the regular issuance of the securities began. Declines in international markets mirrored those in the United States.

Global economies have been hard hit by the financial crisis. In November, the National Bureau of Economic Research confirmed that the U.S. economy was in recession and had been since December 2007. Official data in the eurozone and Japan showed those economies were also in recession. American manufacturing contracted in November at the steepest rate in 26 years, leading Europe and Asia into an industrial slump as the recession that began in the United States spread around the world. Factory indices in China, the United Kingdom, the eurozone, and Russia all fell to record lows.

UNITED STATES

Recent market performance in dollars[2]

	1 month ended 11/30/08	1 year ended 11/30/08
Dow Jones Industrial Average	-4.86%	-32.11%
Standard & Poor's 500 Stock Index	-7.18%	-38.09%
NASDAQ Composite Index	-10.61%	-41.75%
Barclays Capital U.S. Aggregate Bond Index	3.25%	1.74%
Barclays Capital U.S. Government Bond Index	4.74%	8.89%
Barclays Capital U.S. Credit Bond Index	3.93%	-8.66%
Barclays Capital U.S. High-Yield Corporate Bond Index	-9.31%	-31.23%

In the United States, the economic decline deepened in November and the first weeks of December. U.S. stock declines accelerated in November after confirmation that the U.S. economy was indeed in a recession and had been since December 2007. That conclusion came after the U.S. economy shrank 0.5% in the third quarter, with business spending on equipment and software declining 5.7% and November manufacturing contracting at the steepest rate in 26 years.

As the credit crisis persists, companies have cut payrolls and investment. News that U.S. employers eliminated jobs at the fastest pace in 34 years and service industries contracted by the most in at least 11 years added a new level of gloom to the outlook. So far this year, companies have cut 1.9 million jobs, and firms such as Citibank, 3M, Boeing, and AT&T have announced plans in recent weeks to reduce headcount. The uncertainty has taken a toll on the U.S. consumer.

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Consumer spending fell 3.7% in the third quarter, the largest drop in 28 years, as consumers were hesitant to spend and had difficulty getting loans.

The economic slowdown and deceleration in inflation have put added pressure on policymakers to further lower interest rates and boost stimulus plans. As central banks around the world cut interest rates, the U.S. Federal Reserve Board looked for new ways to revive the U.S. economy. The Bush administration signaled that it was ready to rescue U.S. automakers after the U.S. Senate rejected a $14 billion bailout. Automakers have been among the hardest hit by the slump in consumer demand. In November auto sales dropped 3.6%, after having fallen 23% during the previous three months.

A drop in corporate profits has added to the bad news of late, and more banks are reporting that their top executives will forego bonuses.

LATIN AMERICA

Recent market performance[3]

	1 month ended 11/30/08	1 year ended 11/30/08
MSCI Emerging Markets Latin America Index, local currency	-1.25%	-39.97%
JPMorgan EMBI Global Latin America Index, U.S. dollars	3.16%	-17.35%

Falling commodity prices hurt Latin American economies, which are in many cases large producers of oil, metals, and minerals. Latin American countries lost revenues as prices dropped and world demand slowed. Stock declines also pressured the region's economies as panicked global investors continued to pull funds from all markets considered risky.

Brazil

Brazil's currency, the real, fell more than 36% in the past four months as demand for debt linked to Brazil's 13.75% interest rate evaporated and importers of Brazilian products reduced demand. The drop in the currency has exacerbated Brazil's problems with inflation, which remained at 6.39%, near the central bank's 6.50% upper target.

Policymakers have thus been reluctant to lower interest rates to boost the country's economy. In the past few weeks, growth noticeably cooled as companies cut jobs and slashed sales outlooks amid slower domestic and global demand and tighter credit conditions. For December at least, policymakers are likely to keep rates on hold to gauge whether slower economic growth and falling commodity prices will begin to rein in inflation.

Mexico

Mexican officials are facing a similar dilemma. Inflation was at a seven-year high even as economic activity cooled. The drop in raw material prices and decline in demand has changed the balance of risks. In November, Mexico's central bank opted to keep rates unchanged but signaled that it was increasingly concerned that the global financial crisis could damp growth.

EUROZONE

Recent market performance in euros[4]

	1 month ended 11/30/08	1 year ended 11/30/08
MSCI Europe (ex-U.K.) Index	-7.05%	-42.56%
CAC-40 Index	-6.43%	-42.46%
DAX Index	-6.39%	-42.65%
Merrill Lynch EMU Direct Government Index	3.83%	7.59%
Merrill Lynch EMU Corporate Index	1.52%	-4.35%

In an unprecedented move, the European Central Bank cut its interest rate 75 basis points, the most in its 10-year history, as the bank stepped up its response to the credit crisis that has pushed the eurozone into recession. The ECB has cut rates three times in the past two months as the eurozone economy has been hit by multiple shocks that have dragged confidence lower. Manufacturing, service sector activity, and investment spending have slumped, and household spending has stagnated. Under pressure from the rate cuts, the euro has dropped about 20% against the dollar from its peak in early July.

The European Union's plan for a $256 billion stimulus package to support the region's economy would focus on accelerating EU-wide investments in transportation, information, technology, and energy. Separately, French President Nicolas Sarkozy said the French government and a state-owned lender will raise $7.6 billion to create a sovereign wealth fund aimed at protecting and developing the country's strategic companies.

UNITED KINGDOM

Recent market performance in pounds[5]

	1 month ended 11/30/08	1 year ended 11/30/08
FTSE All Share Index	-1.67%	-32.24%
Merrill Lynch U.K. Gilt Index	4.64%	9.14%
Merrill Lynch Sterling Corporate Index	1.71%	-9.88%

The Bank of England cut its benchmark interest rate one percentage point, to 2%, the lowest level since 1951, as the economy slid closer to recession. The bank concluded it was unlikely that lending volumes would return to normal without further measures.

In recent weeks data have pointed to a steady deterioration in the U.K. economic outlook. The British economy shrank 0.5% during the third quarter, and the government said it expects three more quarters of contraction before signs of recovery appear in the second half of next year. In November, house prices fell 1.1% from October and 8.1% from a year ago, the largest annual decrease on record. This drop is expected to lead to a further decline in consumer spending. In addition, U.K. banks reported they are seeing a rise in insolvencies as more consumers are unable to pay off credit cards and personal loans. Last month the service, manufacturing, and construction industries all shrank at the fastest pace on record.

RUSSIA

The rapid drop in the price of oil has wreaked havoc on the Russian economy. Russia is the world's largest energy exporter and relies on oil and gas for two-thirds of its export earnings. The decline in oil prices, combined with the banking crisis and capital flight from emerging markets, has thrown the Russian stock markets into turmoil and has prompted the government to use its massive foreign exchange reserves to prop up the currency. In November, as oil prices fell, Russia raised interest rates twice and drained $143 billion, or about a quarter of its reserves, to boost the ruble. In December alone, Russia's central bank has devalued the ruble six times.

Standard & Poor's Ratings Services cut its foreign currency ratings on Russia to "BBB," citing risks associated with the country's sharp reversal in investment flows. According to S&P, the reversal has increased the costs and difficulty of meeting the country's external financing needs. Since August, Russia's international reserves have fallen 27%, to $437 billion, as companies prepay or hedge their foreign exchange borrowings and banks refinance their foreign currency obligations.

The turmoil has begun to infect the broader economy and is hitting ordinary Russians who are suffering under the weight of faster inflation, a weakening ruble, late wage payments, and layoffs. Russian Prime Minister Vladimir Putin, who technically bears direct responsibility for the economy, unveiled new measures to shield the country's economy and financial system from the pressures of the global financial crunch. He announced corporate tax cuts and higher welfare payments and pledged to boost pension payments and other spending to help people suffering the effects of the downturn.

To boost liquidity in the financial system, the government has pledged more than $200 billion in loans, tax cuts, delayed tax payments, and other measures. Putin suggested that the government might buy stakes in companies to help them survive if efforts to funnel the $200 billion through banks are insufficient.

Putin has promised to use the nation's foreign exchange reserve to prevent drastic changes in the ruble exchange rates. However, at the same time he has left the door open to further devaluation by saying that the currency's rate would be determined by demand for Russian exports, such as oil and metals.

JAPAN

Recent market performance in yen[6]

	1 month ended 11/30/08	1 year ended 11/30/08
Nikkei 225 Stock Average	-0.75%	-45.71%
JPMorgan Global Government Bond Index Japan	0.33%	2.14%

Revised economic growth data showed Japan's economy shrank at an annualized 1.8% rate in the third quarter. In fact, during that period, Japan's economy fell into recession for the first time since 2001, after businesses cut spending and inventories in anticipation of a prolonged downturn. Exports, which have been the main engine of growth, declined in October at the fastest pace in seven years. That drop has worsened the growth outlook. Japanese officials said the downside risks to the economy are growing as the global economy slows.

Japanese companies are struggling as exports slow. In fact, in December the central bank's Tankan survey showed confidence among large manufacturers fell the most in 34 years. As the global financial crisis deepens, companies are being forced to pare production and cut workers. Sony, which is the world's second-largest maker of consumer electronics, announced it was laying off 16,000 employees, a move that underlines how hard the company has been hit by the slump in consumer spending.

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Toyota Motor, the world's second-largest automaker, announced it would cut 3,000 contract workers. Toyota's competitors Isuzu Motors and Mazda Motor have also announced layoffs. Given the worsening situation, consumer sentiment fell to its lowest level on record in October, and household spending fell in September for the seventh month in a row. To get people spending again, Japanese Prime Minister Taro Aso has pledged to give households at least $127 worth of financial assistance and has instructed his cabinet to find ways to support workers who are losing their jobs. The measures are part of his proposed $54 billion economic stimulus package.

In an effort to revive lending to businesses, the Bank of Japan said it would accept lower-grade corporate debt as collateral for loans to commercial banks. Given the offer's lukewarm reception, the bank was expected instead to offer to buy the loans outright. The BOJ has offered unlimited loans to banks between January and April as long as they submit enough collateral. The announced program has failed to stem increases in borrowing costs that have been rising even after the bank in late October cut rates for the first time in seven years.

ASIA EX-JAPAN

Recent market performance[7]

	1 month ended 11/30/08	1 year ended 11/30/08
MSCI AC (All Country) Asia Pacific ex-Japan Index, local currency (includes Australia and New Zealand)	-3.82%	-47.18%
JPMorgan EMBI Global Asia Index, U.S. dollars	2.02%	-14.27%

China

China's economy has slowed markedly in recent weeks. The World Bank forecast that China's economy will grow 7.5% in 2009 — the slowest pace in 20 years. The 2008 growth rate has fallen to 9%, from 12% at the time of the Olympics. Chinese economists estimate that growth needs to remain at 8% if the country is to provide jobs to the 20 million people who enter the work force each year.

A decline in export growth is reportedly behind much of the slowing. China's exports fell 2.2% from a year earlier. It was the first decline since 2001 and marked quite a reversal from the 19.2% increase in October. As export demand evaporates, the country has been forced to close thousands of factories. These shutdowns have dealt a blow to Chinese confidence — not a good outcome when the country is trying to move away from export-led growth to an economy powered more by domestic consumption. Consumer spending makes up about 35% of the Chinese gross domestic product, a number that has been dropping since the 1980s, when it stood at 50%.

Given the sharp deterioration in economic conditions, leaders are expected to rely on fiscal and monetary policies to stimulate the economy. China's top leaders began a meeting in December to chart economic policy for 2009. Economists expect that efforts will concentrate on boosting domestic spending. To spur consumer spending, leaders reportedly will look at raising the income tax threshold, as well as increasing pay for state workers, household subsidies, and minimum income support.

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Sources: MFS research; *The Wall Street Journal*, print and online editions; *Financial Times*; Bloomberg News.

[1] Sources: Bloomberg, "Global Economy Watch" 12/15/2008; Web sites of the U.S. Federal Reserve Board, European Central Bank, Bank of England, Bank of Japan, and People's Bank of China. All data are the most current available as of December 15, 2008. GDP data are year-on-year numbers and represent total GDP for the trailing 12 months. Similarly, the inflation number is Consumer Price Index total inflation for the trailing 12 months.

[2] Source: SPAR, FactSet Research Systems Inc. The **Dow Jones Industrial Average (DJIA)** is a commonly used indicator of U.S. stock market performance. The **Standard & Poor's 500 Stock Index (S&P 500)** is a commonly used measure of the broad U.S. stock market. The **NASDAQ Composite Index** measures domestic and foreign-based stocks traded on the National Association of Securities Dealers Automated Quotation system. The **Barclays Capital U.S. Aggregate Bond Index** is a measure of the U.S. bond market. The **Barclays Capital U.S. Government Bond Index** measures the performance of the U.S. government bond market. The **Barclays Capital U.S. Credit Bond Index** is a broad measure of the U.S. investment-grade corporate bond market. The **Barclays Capital U.S. High-Yield Corporate Bond Index** measures the performance of the high-yield bond market.

[3] Source: MSCI BARRA. The **MSCI Emerging Markets Latin America Index** is a free float-adjusted market-capitalization index that measures equity market performance in Latin America. Source: SPAR, FactSet Research Systems Inc. The **JPMorgan EMBI Global Latin America Index** measures performance of U.S. dollar-denominated debt instruments issued by emerging market sovereign and quasi-sovereign entities in Latin America. The **Bovespa Index** is a total return index weighted by traded volume and comprised the most liquid stocks traded on the Sao Paulo Stock Exchange.

[4] The eurozone consists of the 15 nations that use the euro as their common currency: Austria, Belgium, Cyprus, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Malta, the Netherlands, Portugal, Slovenia, and Spain. The 27-member European Union (EU) includes additional nations that do not use the euro as their currency. Source: SPAR, FactSet Research Systems Inc. The **MSCI Europe (ex-UK) Index** measures the performance of the European stock market (excluding the United Kingdom) and includes other local currencies in addition to euros. The **CAC-40 Index** is a commonly used measure of the French stock market. The **DAX Index** is a commonly used measure of the German stock market. The **Merrill Lynch EMU Direct Government Index** measures the performance of euro-denominated government debt of EMU nations. The **Merrill Lynch EMU Corporate Index** measures the performance of the EMU investment-grade euro-denominated corporate bond market.

[5] Source: SPAR, FactSet Research Systems Inc. The **FTSE All Share Index** is a broad measure of the U.K. stock market. The **Merrill Lynch U.K. Gilt Index** measures the performance of the U.K. government bond market. The **Merrill Lynch Sterling Corporate Index** measures the performance of the U.K. investment-grade corporate bond market.

[6] Source: SPAR, FactSet Research Systems Inc. The **Nikkei 225 Stock Average**, a commonly used measure of the Japanese stock market, is a price-weighted index of 225 top-rated Japanese companies listed in the First Section of the Tokyo Stock Exchange. The **JPMorgan Global Government Bond Index Japan** focuses on the Japanese issues included in the broader **JPMorgan Government Index**.

[7] Source: MSCI BARRA. The **MSCI AC (All Country) Asia Pacific ex-Japan Index** is a free float-adjusted market-capitalization index that measures equity market performance in Asia, excluding Japan. Source: SPAR, FactSet Research Systems Inc. The **JPMorgan EMBI Global Asia Index** measures performance of U.S. dollar-denominated debt instruments issued by emerging market sovereign and quasi-sovereign entities in Asia.

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