

MFS GOVERNMENT MARKETS INCOME TRUST
Form N-Q
April 24, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM N-Q

QUARTERLY SCHEDULE OF PORTFOLIO HOLDINGS OF
REGISTERED MANAGEMENT INVESTMENT COMPANIES

Investment Company Act file number 811-5078

MFS GOVERNMENT MARKETS INCOME TRUST

(Exact name of registrant as specified in charter)

500 Boylston Street, Boston, Massachusetts 02116

(Address of principal executive offices) (Zip code)

Susan S. Newton

Massachusetts Financial Services Company

500 Boylston Street

Boston, Massachusetts 02116

(Name and address of agents for service)

Registrant's telephone number, including area code: (617) 954-5000

Date of fiscal year end: November 30

Date of reporting period: February 28, 2009

ITEM 1. SCHEDULE OF INVESTMENTS.

Edgar Filing: MFS GOVERNMENT MARKETS INCOME TRUST - Form N-Q

MFS Government Markets Income Trust

PORTFOLIO OF INVESTMENTS (Unaudited) 2/28/09

| Issuer | Shares/Par | Value (\$) |
|--|--------------|---------------|
| Bonds 97.6% | | |
| U.S. Bonds 94.7% | | |
| Agency - Other 13.3% | | |
| Financing Corp., 10.7%, 2017 | \$ 4,095,000 | \$ 6,059,842 |
| Financing Corp., 9.4%, 2018 | 3,085,000 | 4,292,864 |
| Financing Corp., 9.8%, 2018 | 4,350,000 | 6,195,609 |
| Financing Corp., 10.35%, 2018 | 6,820,000 | 10,066,286 |
| Financing Corp., STRIPS, 0%, 2017 | 5,000,000 | 3,524,650 |
| | | \$ 30,139,251 |
| Asset Backed & Securitized 3.5% | | |
| Banc of America Commercial Mortgage, Inc., FRN, 5.658%, 2049 | \$ 1,000,000 | \$ 570,905 |
| Citigroup Commercial Mortgage Trust, FRN, 5.7%, 2049 | 1,000,000 | 600,384 |
| Citigroup/Deutsche Bank Commercial Mortgage Trust, 5.322%, 2049 | 1,200,000 | 731,373 |
| Commercial Mortgage Pass-Through Certificates, 5.306%, 2046 | 785,646 | 507,015 |
| Credit Suisse Mortgage Capital Certificate, 5.311%, 2039 | 500,000 | 303,711 |
| CWCapital Cobalt Ltd., 5.223%, 2048 | 1,000,000 | 647,578 |
| Greenwich Capital Commercial Funding Corp., FRN, 5.914%, 2038 | 1,000,000 | 648,486 |
| GS Mortgage Securities Corp., 5.56%, 2039 | 1,000,000 | 658,379 |
| JPMorgan Chase Commercial Mortgage Securities Corp., 5.42%, 2049 | 1,000,000 | 599,320 |
| JPMorgan Chase Commercial Mortgage Securities Corp., 5.818%, 2049 | 1,000,000 | 590,681 |
| Merrill Lynch Mortgage Trust, FRN, 5.828%, 2050 | 750,000 | 114,522 |
| Prudential Securities Secured Financing Corp., FRN, 7.284%, 2013 (z) | 1,819,000 | 1,480,308 |
| Wachovia Bank Commercial Mortgage Trust, FRN, 5.902%, 2051 | 1,000,000 | 362,821 |
| | | \$ 7,815,483 |
| Building 0.1% | | |
| CRH PLC, 8.125%, 2018 | \$ 397,000 | \$ 309,156 |
| Computer Software - Systems 0.3% | | |
| International Business Machines Corp., 8%, 2038 | \$ 500,000 | \$ 594,217 |
| Energy - Integrated 0.0% | | |
| Hess Corp., 8.125%, 2019 | \$ 30,000 | \$ 30,578 |
| Food & Beverages 0.9% | | |
| Anheuser-Busch Companies, Inc., 7.75%, 2019 (n) | \$ 750,000 | \$ 750,388 |
| Dr Pepper Snapple Group, Inc., 6.82%, 2018 | 231,000 | 215,062 |
| Kraft Foods, Inc., 6.125%, 2018 | 960,000 | 953,521 |
| | | \$ 1,918,971 |
| Major Banks 0.2% | | |
| Merrill Lynch & Co., Inc., 6.05%, 2016 | \$ 750,000 | \$ 544,607 |
| Mortgage Backed 60.8% | | |
| Fannie Mae, 4.79%, 2012 | \$ 3,522,804 | \$ 3,621,171 |
| Fannie Mae, 4.542%, 2013 | 818,682 | 836,924 |

Edgar Filing: MFS GOVERNMENT MARKETS INCOME TRUST - Form N-Q

| | | |
|-----------------------------|-----------|-----------|
| Fannie Mae, 5%, 2013 - 2027 | 3,744,457 | 3,813,413 |
| Fannie Mae, 5.06%, 2013 | 387,669 | 399,669 |
| Fannie Mae, 5.37%, 2013 | 1,011,163 | 1,040,679 |
| Fannie Mae, 4.77%, 2014 | 476,454 | 485,684 |
| Fannie Mae, 4.84%, 2014 | 2,758,259 | 2,823,773 |
| Fannie Mae, 5.1%, 2014 | 512,313 | 529,415 |
| Fannie Mae, 4.7%, 2015 | 468,171 | 475,850 |
| Fannie Mae, 4.74%, 2015 | 379,397 | 386,348 |
| Fannie Mae, 4.78%, 2015 | 531,102 | 541,883 |
| Fannie Mae, 4.815%, 2015 | 543,000 | 554,919 |
| Fannie Mae, 4.82%, 2015 | 1,422,888 | 1,454,185 |
| Fannie Mae, 4.85%, 2015 | 333,851 | 341,624 |
| Fannie Mae, 4.86%, 2015 | 156,890 | 160,581 |
| Fannie Mae, 4.87%, 2015 | 353,627 | 362,187 |
| Fannie Mae, 4.89%, 2015 | 396,337 | 406,352 |

Edgar Filing: MFS GOVERNMENT MARKETS INCOME TRUST - Form N-Q

MFS Government Markets Income Trust

PORTFOLIO OF INVESTMENTS (Unaudited) 2/28/09 - continued

| Issuer | Shares/Par | Value (\$) |
|---|--------------|----------------|
| Bonds continued | | |
| U.S. Bonds continued | | |
| Mortgage Backed continued | | |
| Fannie Mae, 5.466%, 2015 | \$ 875,914 | \$ 924,659 |
| Fannie Mae, 5.09%, 2016 | 500,000 | 517,423 |
| Fannie Mae, 5.423%, 2016 | 781,780 | 824,911 |
| Fannie Mae, 5.845%, 2016 | 430,795 | 449,775 |
| Fannie Mae, 6.5%, 2016 - 2037 | 6,698,449 | 7,050,488 |
| Fannie Mae, 5.05%, 2017 | 525,300 | 542,103 |
| Fannie Mae, 5.3%, 2017 | 586,894 | 612,733 |
| Fannie Mae, 5.5%, 2017 - 2037 | 53,370,766 | 54,904,196 |
| Fannie Mae, 6%, 2017 - 2037 | 14,511,502 | 15,071,230 |
| Fannie Mae, 4.88%, 2020 | 315,810 | 318,149 |
| Freddie Mac, 4.5%, 2015 | 220,530 | 221,332 |
| Freddie Mac, 5%, 2016 - 2027 | 5,062,947 | 5,157,528 |
| Freddie Mac, 6%, 2021 - 2038 | 6,731,186 | 6,979,874 |
| Freddie Mac, 3.75%, 2024 | 333,522 | 334,584 |
| Freddie Mac, 4%, 2024 | 333,917 | 335,503 |
| Freddie Mac, 5.5%, 2024 - 2036 | 12,277,476 | 12,588,542 |
| Freddie Mac, 6.5%, 2037 | 2,425,571 | 2,540,054 |
| Ginnie Mae, 5.5%, 2033 - 2038 | 7,688,931 | 7,922,477 |
| Ginnie Mae, 5.612%, 2058 | 1,146,175 | 1,159,070 |
| Ginnie Mae, 6.357%, 2058 | 1,029,592 | 1,069,367 |
| | | \$ 137,758,655 |
| Municipals 3.7% | | |
| California Educational Facilities Authority Rev. (Stanford University), T-1, 5%, 2039 | \$ 3,075,000 | \$ 3,197,262 |
| Illinois Regional Transportation Authority, A, FSA, 5.75%, 2034 | 1,125,000 | 1,205,966 |
| Massachusetts Bay Transportation Authority, Sales Tax Rev., A-1, 5.25%, 2028 | 1,045,000 | 1,107,794 |
| Massachusetts Health & Educational Facilities Authority Rev. (Boston College), 5.5%, 2027 | 755,000 | 828,378 |
| Massachusetts Water Resources Authority Rev., B, FSA, 5.25%, 2035 | 1,310,000 | 1,336,357 |
| New York, Dormitory Authority Rev. (New York University), 5.5%, 2040 | 575,000 | 610,633 |
| | | \$ 8,286,390 |
| Network & Telecom 0.2% | | |
| Verizon Communications, Inc., 8.75%, 2018 | \$ 449,000 | \$ 513,514 |
| Other Banks & Diversified Financials 0.1% | | |
| UBS Preferred Funding Trust V, 6.243% to 2016, FRN to 2049 | \$ 750,000 | \$ 288,477 |
| Real Estate 0.3% | | |
| Simon Property Group, Inc., REIT, 5.875%, 2017 | \$ 750,000 | \$ 603,724 |
| Tobacco 0.3% | | |
| Altria Group, Inc., 9.7%, 2018 | \$ 500,000 | \$ 523,499 |
| Altria Group, Inc., 9.25%, 2019 | 250,000 | 254,813 |
| | | \$ 778,312 |

Edgar Filing: MFS GOVERNMENT MARKETS INCOME TRUST - Form N-Q

| U.S. Government Agencies and Equivalents 5.7% | | |
|---|-----------|---------------|
| Aid-Egypt, 4.45%, 2015 | 1,755,000 | \$ 1,774,814 |
| Farmer Mac, 5.5%, 2011 (n) | 3,010,000 | 3,222,687 |
| Small Business Administration, 8.875%, 2011 | 89,616 | 91,092 |
| Small Business Administration, 6.35%, 2021 | 825,345 | 885,125 |
| Small Business Administration, 6.34%, 2021 | 717,609 | 770,234 |
| Small Business Administration, 6.44%, 2021 | 714,868 | 770,235 |
| Small Business Administration, 6.625%, 2021 | 851,291 | 923,025 |
| Small Business Administration, 5.52%, 2024 | 1,047,991 | 1,144,954 |
| U.S. Department of Housing & Urban Development, 6.36%, 2016 | 1,580,000 | 1,669,095 |
| U.S. Department of Housing & Urban Development, 6.59%, 2016 | 1,676,000 | 1,676,106 |
| | | \$ 12,927,367 |

Edgar Filing: MFS GOVERNMENT MARKETS INCOME TRUST - Form N-Q

MFS Government Markets Income Trust

PORTFOLIO OF INVESTMENTS (Unaudited) 2/28/09 - continued

| Issuer | Shares/Par | Value (\$) |
|--|--------------|-----------------------|
| Bonds continued | | |
| U.S. Bonds continued | | |
| U.S. Treasury Obligations 5.3% | | |
| U.S. Treasury Bonds, 11.25%, 2015 | \$ 499,000 | \$ 737,857 |
| U.S. Treasury Bonds, 4.75%, 2017 | 3,389,000 | 3,842,279 |
| U.S. Treasury Bonds, 4.75%, 2037 | 2,000,000 | 2,313,438 |
| U.S. Treasury Bonds, 4.375%, 2038 | 3,225,000 | 3,556,569 |
| U.S. Treasury Notes, 4.125%, 2012 (f) | 513,000 | 557,046 |
| U.S. Treasury Notes, 3.75%, 2018 | 975,000 | 1,033,120 |
| | | \$ 12,040,309 |
| Total U.S. Bonds | | \$ 214,549,011 |
| Foreign Bonds 2.9% | | |
| Brazil 0.2% | | |
| Petrobras International Finance Co., 7.875%, 2019 | \$ 429,000 | \$ 430,072 |
| Canada 0.7% | | |
| Canadian Pacific Railway Co., 6.5%, 2018 | \$ 830,000 | \$ 729,099 |
| Rogers Communications, Inc., 6.8%, 2018 | 1,000,000 | 1,001,118 |
| | | \$ 1,730,217 |
| Chile 0.7% | | |
| Corporacion Nacional del Cobre de Chile, 6.15%, 2036 | \$ 1,092,000 | \$ 831,792 |
| HQI Transelec Chile S.A., 7.875%, 2011 | 680,000 | 679,219 |
| | | \$ 1,511,011 |
| Italy 0.1% | | |
| UniCredito Luxembourg Finance S.A., 6%, 2017 (n) | \$ 200,000 | \$ 153,931 |
| Luxembourg 0.0% | | |
| ArcelorMittal, 6.125%, 2018 | \$ 91,000 | \$ 70,063 |
| Malaysia 0.2% | | |
| Petronas Capital Ltd., 7.875%, 2022 | \$ 433,000 | \$ 465,523 |
| Mexico 0.4% | | |
| Pemex Project Funding Master Trust, 6.625%, 2035 | \$ 322,000 | \$ 227,302 |
| Pemex Project Funding Master Trust, 5.75%, 2018 | 528,000 | 427,348 |
| Petroleos Mexicanos, 8%, 2019 (n) | 228,000 | 224,010 |
| | | \$ 878,660 |
| Portugal 0.0% | | |
| EDP Finance B.V., 6%, 2018 (n) | \$ 100,000 | \$ 92,863 |
| Russia 0.3% | | |

Edgar Filing: MFS GOVERNMENT MARKETS INCOME TRUST - Form N-Q

| | | |
|---|------------|-----------------------|
| Gazprom International S.A., 7.201%, 2020 | \$ 588,077 | \$ 474,490 |
| TransCapitalInvest Ltd., 5.67%, 2014 | 215,000 | 158,025 |
| | | \$ 632,515 |
| United Kingdom 0.3% | | |
| Diageo Capital PLC, 5.75%, 2017 | \$ 520,000 | \$ 518,000 |
| Royal Bank of Scotland Group PLC, 6.99% to 2017, FRN to 2049 (n) | 750,000 | 195,000 |
| | | \$ 713,000 |
| Total Foreign Bonds | | \$ 6,677,855 |
| Total Bonds | | \$ 221,226,866 |
| Money Market Funds (v) 1.7% | | |
| MFS Institutional Money Market Portfolio, 0.44%, at Net Asset Value | 3,799,910 | \$ 3,799,910 |
| Total Investments | | \$ 225,026,776 |
| Other Assets, Less Liabilities 0.7% | | 1,516,162 |
| Net Assets 100.0% | | \$ 226,542,938 |

(f) All or a portion of the security has been segregated as collateral for open futures contracts.

MFS Government Markets Income Trust

PORTFOLIO OF INVESTMENTS (Unaudited) 2/28/09 - continued

- (n) Securities exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be sold in the ordinary course of business in transactions exempt from registration, normally to qualified institutional buyers. At period end, the aggregate value of these securities was \$4,638,879, representing 2.0% of net assets.
- (v) Underlying fund that is available only to investment companies managed by MFS. The rate quoted is the annualized seven-day yield of the fund at period end.
- (z) Restricted securities are not registered under the Securities Act of 1933 and are subject to legal restrictions on resale. These securities generally may be resold in transactions exempt from registration or to the public if the securities are subsequently registered. Disposal of these securities may involve time-consuming negotiations and prompt sale at an acceptable price may be difficult. The fund holds the following restricted securities:

| Restricted Securities | Acquisition Date | Cost | Current Market Value |
|--|---------------------|--------------|-------------------------|
| Prudential Securities Secured Financing Corp., FRN, 7.284%, 2013 | 12/06/04 | \$ 2,019,445 | \$ 1,480,308 |
| % of Net Assets | | | 0.7% |

The following abbreviations are used in this report and are defined:

FRN Floating Rate Note. Interest rate resets periodically and may not be the rate reported at period end.
 REIT Real Estate Investment Trust
 STRIPS Separate Trading of Registered Interest and Principal of Securities

Insurers

FSA Financial Security Assurance Inc.

See attached supplemental information. For more information see notes to financial statements as disclosed in the most recent semiannual or annual report.

MFS Government Markets Income Trust**Supplemental Information (Unaudited) 2/28/09****(1) Fair Value Disclosure**

The fund adopted FASB Statement No. 157, Fair Value Measurements (the Statement). This Statement provides a single definition of fair value, a hierarchy for measuring fair value and expanded disclosures about fair value measurements.

Various inputs are used in determining the value of the fund's assets or liabilities carried at market value. These inputs are categorized into three broad levels. Level 1 includes quoted prices in active markets for identical assets or liabilities. Level 2 includes other significant observable market-based inputs (including quoted prices for similar securities, interest rates, prepayment speed, and credit risk). Level 3 includes unobservable inputs, which may include the adviser's own assumptions in determining the fair value of investments. Other financial instruments are derivative instruments not reflected in total investments, such as futures, forwards, swap contracts, and written options. The following is a summary of the levels used as of February 28, 2009 in valuing the fund's assets or liabilities carried at market value:

| | Level 1 | Level 2 | Level 3 | Total |
|-----------------------------|--------------|----------------|---------|----------------|
| Investments in Securities | \$ 3,799,910 | \$ 221,226,866 | \$ | \$ 225,026,776 |
| Other Financial Instruments | \$ 421,822 | \$ | \$ | \$ 421,822 |

(2) Portfolio Securities

The cost and unrealized appreciation and depreciation in the value of the investments owned by the fund, as computed on a federal income tax basis, are as follows:

| | |
|--|----------------|
| Aggregate Cost | \$ 225,363,162 |
| Gross unrealized appreciation | \$ 5,362,544 |
| Gross unrealized depreciation | (5,698,930) |
| Net unrealized appreciation (depreciation) | \$ (336,386) |

The aggregate cost above includes prior fiscal year end tax adjustments.

(3) Derivative Contracts at 2/28/09**Futures contracts outstanding at 2/28/09**

| Description | Contracts | Value | Expiration Date | Unrealized Appreciation (Depreciation) |
|----------------------------------|-----------|---------------|-----------------|--|
| U.S. Treasury Note 5 yr (Long) | 96 | \$ 11,192,250 | Jun-09 | \$ (28,836) |
| U.S. Treasury Note 10 yr (Short) | 120 | 14,403,750 | Jun-09 | 158,017 |
| U.S. Treasury Bond 30 yr (Short) | 87 | 10,730,906 | Jun-09 | 292,641 |
| | | | | \$ 421,822 |

At February 28, 2009, the fund had sufficient cash and/or other liquid securities to cover any commitments under these derivative contracts.

MFS Government Markets Income Trust

Supplemental Information (Unaudited) 2/28/09 - continued

(4) Transactions in Underlying Funds-Affiliated Issuers

An affiliated issuer may be considered one in which the fund owns 5% or more of the outstanding voting securities, or a company which is under common control. For the purposes of this report, the fund assumes the following to be affiliated issuers:

| Underlying Funds | Beginning Shares/Par Amount | Acquisitions Shares/Par Amount | Dispositions Shares/Par Amount | Ending Shares/Par Amount |
|--|--|---|---|---|
| MFS Institutional Money Market Portfolio | | 13,478,749 | (9,678,839) | 3,799,910 |

| Underlying Funds | Realized Gain (Loss) | Capital Gain Distributions | Dividend Income | Ending Value |
|--|-------------------------------------|---------------------------------------|----------------------------|-------------------------|
| MFS Institutional Money Market Portfolio | \$ | \$ | \$ 2,436 | \$ 3,799,910 |

ITEM 2. CONTROLS AND PROCEDURES.

- (a) Based upon their evaluation of the effectiveness of the registrant's disclosure controls and procedures (as defined in Rule 30a-3(c) under the Investment Company Act of 1940 (the "Act")) as conducted within 90 days of the filing date of this Form N-Q, the registrant's principal financial officer and principal executive officer have concluded that those disclosure controls and procedures provide reasonable assurance that the material information required to be disclosed by the registrant on this report is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

- (b) There were no changes in the registrant's internal controls over financial reporting (as defined in Rule 30a-3(d) under the Act) that occurred during the registrant's last fiscal quarter that have materially affected, or are reasonably likely to materially affect, the registrant's internal control over financial reporting.

ITEM 3. EXHIBITS.

File as exhibits as part of this Form a separate certification for each principal executive officer and principal financial officer of the registrant as required by Rule 30a-2(a) under the Act (17 CFR 270.30a-2): Attached hereto.

Notice

A copy of the Amended and Restated Declaration of Trust, as amended, of the Registrant is on file with the Secretary of State of The Commonwealth of Massachusetts and notice is hereby given that this instrument is executed on behalf of the Registrant by an officer of the Registrant as an officer and not individually and the obligations of or arising out of this instrument are not binding upon any of the Trustees or shareholders individually, but are binding only upon the assets and property of the respective constituent series of the Registrant.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Registrant: MFS GOVERNMENT MARKETS INCOME TRUST

By (Signature and Title)* MARIA F. DWYER
Maria F. Dwyer, President

Date: April 20, 2009

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By (Signature and Title)* MARIA F. DWYER
Maria F. Dwyer, President
(Principal Executive Officer)

Date: April 20, 2009

By (Signature and Title)* JOHN M. CORCORAN
John M. Corcoran, Treasurer
(Principal Financial Officer
and Accounting Officer)

Date: April 20, 2009

* Print name and title of each signing officer under his or her signature.