Voya Balanced Large Cap Core-Value SMA (Merrill)

Strategic Allocations to Actively Managed Equity and Fixed Income Assets

Strategy overview

A 55/45 multi-asset strategy providing exposure to the investment expertise of the Voya Investment Management equity and fixed income teams in a single strategy.

Key takeaways

- Equity markets rebounded in the second quarter after April's post-Liberation Day volatility, ending above the February peak. Growth outperformed value, driven by strength in technology and communication services, while energy and health care lagged. Easing inflation, selective rate cuts, and increased demand for safe-haven assets highlighted cross-asset dynamics.
- For the quarter ended June 30, 2025, the SMA underperformed the Index on a gross- and net-of-of-fees basis due to unfavorable stock selection. Stock selection in the health care, information technology and consumer staples sectors detracted the most from performance. Conversely, selection within the energy, financials and consumer discretionary sectors contributed to performance.
- As we enter the second half, investors face ongoing geopolitical risks and shifting monetary policy. Expanding leadership beyond mega-cap stocks is creating new opportunities, especially in defensive sectors. We remain focused on refining strategies to align with evolving conditions amid persistent uncertainty and inflationary pressures.

Market review

In the second quarter of 2025, U.S. equities rebounded significantly, with the S&P 500 increasing by 10.94% and the Nasdaq Composite rising by 17.75%. The technology and communication services sectors performed the best, while health care and energy sectors lagged, reflecting a mixed but generally positive market environment. Large-cap stocks outperformed small-cap stocks, and growth stocks beat value stocks.

The technology sector surged in 2Q25, driven by artificial intelligence (AI) growth as hyperscalers increased capital expenditure and improved ways to profit from their AI investments. Positive earnings from the Magnificent 7 stocks further boosted performance. The communication services sector also saw strong gains, benefiting from AI advancements and robust earnings. Conversely, policy and regulatory uncertainty weighed on the health care sector, affecting managed care and pharma companies. Weak oil prices and global growth concerns hampered energy companies, leading to their underperformance relative to the broader market.

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Portfolio review

For the quarter ended June 30, 2025, the SMA underperformed the Index on a gross- and net-of-fees basis due to favorable stock selection. Stock selection in the health care, information technology and consumer staples sectors detracted the most from performance. Conversely, selection within the energy, financials and consumer discretionary contributed to performance.

At the individual stock level, underweight to NVDIA Corp. (NVDA), our position in UnitedHealth Group Inc. (UNH) and overweight to Kenvue, Inc. (KVUE) were among the SMA's largest detractors for the quarter.

An underweight position in NVIDIA Corp. (NVDA) detracted from performance. The stock rebounded sharply from April lows after delivering a strong 1Q25 revenue, easing concerns about a potential slowdown. Despite ongoing tariff uncertainties, robust artificial intelligence (AI)-driven demand continued to support top-line growth.

Our position in UnitedHealth Group Inc. (UNH) detracted from performance. The company reported earnings that came below expectations and faced regulatory scrutiny due to a Department of Justice (DOJ) probe into its Medicare Advantage business.

An overweight position in Kenvue, Inc. (KVUE) detracted from performance this quarter. Shares declined due to softer shipment volumes from retailer destocking and ongoing and tariff-related pressures.

At the individual stock level, overweight to Broadcom Inc. (AVGO) and Micron Technology, Inc. (MU) and owning a non-benchmark in Taiwan Semiconductor Manufacturing Co., Ltd. Sponsored ADR (TSM) were among the SMA's largest contributors for the quarter.

An overweight position in Broadcom Inc. (AVGO) contributed as demand for AI semiconductors remained strong, supported by their projects with major cloud clients.

An overweight position in Micron Technology, Inc. (MU) contributed to performance. The stock rose following the Trump administration's announcement of a temporary U.S. and China tariff cuts. The tariff cuts provided a boost to sentiment, and all the technology sub-sector benefited from the announcement.

Owning a non-benchmark position in Taiwan Semiconductor Manufacture Co., Ltd. (TSM) contributed to performance this quarter. The company reported better than expected 1Q25 earnings on continued AI strength. Also, upbeat 2Q25 guidance with expectations for accelerating AI revenue growth.

Outlook

The U.S. economy demonstrated resilience despite continued inflationary pressures and a potential slowdown. The U.S. Federal Reserve kept the key borrowing rate between 4.25% and 4.50%, but signaled potential rate cuts by the end of 2025. However, Fed Chair Powell emphasized a data-dependent approach, with markets expecting rates to remain steady in July. The labor market remains stable with strong nonfarm payrolls, and inflation expectations have fallen, boosting consumer sentiment, but the impact of tariffs remains a risk. U.S. assets are attractive, with the U.S. dollar at its lowest since March 22, 2025. Attractive returns on equities and bonds, coupled with a resilient labor market and global economic leadership, continue to inspire investor confidence and market optimism.

The ICE BofA US Broad Market Index tracks the performance of US dollar-denominated investment grade debt publicly issued and settled in the US domestic market, including US Treasury, quasi-government, corporate, securitized, and collateralized securities. With the exception of local currency sovereign debt, qualifying securities must have an investment grade rating (based on an average of Moody's, S&P and Fitch). In addition, qualifying securities must have at least one year remaining term to final maturity, at least 18 months to final maturity at point of issuance, and a fixed coupon schedule. The Standard and Poor's 500 Index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries. The index includes 500 leading companies and covers approximately 80% of available market capitalization. Index returns do not reflect fees, brokerage commissions, taxes or other expenses of investing. Investors cannot invest directly in an index. Source: BofA, used with permission. BofA is licensing the BofA indices and related data "as is," makes no warranties regarding same, does not guarantee the suitability, quality, accuracy, timeliness, and/or completeness of the BofA indices or any data included in, related to, or derived therefrom, assumes no liability in connection with their use, and does not sponsor, endorse, or recommend Voya, or any of its products or services. The index is a product of S&P Dow Jones Indices LLC, a division of S&P Global, or its affiliates ("SPDJI"), and has been licensed for use by Voya. Standard & Poor's® and S&P® are registered trademarks of Standard & Poor's Financial Services LLC, a division of S&P Global ("S&P"); Dow Jones® is a registered trademark of Dow Jones Trademark Holdings LLC ("Dow Jones"). Voya or its products or services are not sponsored, endorsed, sold or promoted by SPDJI, Dow Jones, S&P or their respective affiliates, and none of such parties make any representation regarding the advisability of investing in such product(s) nor do they have any liability for any errors, omissions, or interruptions of the index.

All investing involves risks of fluctuating prices and the uncertainties of rates of return and yield. As with any portfolio, you could lose money on your investment in the Voya Balanced Large Cap Core Value SMA. Stocks are more volatile than bonds, and portfolios with a higher concentration of stocks are more likely to experience greater fluctuations in value than portfolios with a higher concentration of bonds. Investing in bonds also entails credit risk and interest rate risk. The strategic allocation of the Voya Balanced Large Cap Core Value SMA is expected to remain constant; as a result, the SMA's performance will depend on the performance of the underlying investment strategies rather than tactical changes to its asset allocations. Market and asset class performance may differ in the future from historical performance and the assumptions used to form the strategic asset allocations for the Voya Balanced Large Cap Core Value SMA. There is risk that you could achieve better returns in an underlying portfolio or other portfolios representing a single asset class than in the Voya Balanced Large Cap Core Value SMA.

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