The Target Date Choice to Help Keep Retirement Goals on Track

Market Review and Economic Outlook

After five straight months of gains, stock markets felt the pull of gravity in September as coronavirus cases resurged and confidence in the economic outlook faltered. Nevertheless, strong gains in July and August offset the September downdraft, resulting in net increases for the quarter. The Dow Jones Industrial Average rose 8.22%, the S&P 500 index rose 8.79% and the NASDAQ Composite maintained its lead on the strength of its technology giants, gaining 11.02%. Gauged by market capitalization, large-cap stocks fared the best, followed by mid caps then small caps; all had positive results for the quarter. Non-U.S. markets, as measured by the MSCI EAFE index, gained 4.88%; the MSCI Emerging Markets index continued to benefit from a weaker U.S. dollar, gaining 9.56%.

During the quarter, expectations for further fiscal stimulus, optimism about progress in developing a coronavirus vaccine, positive economic momentum and better-than-expected corporate earnings were among the widely cited market drivers. Also undergirding sentiment was the Federal Reserve’s decision to cease pre-emptively raising interest rates to forestall inflation, a policy shift likely to keep rates low — and supportive of equities — for a long time. The Dow Jones UBS Commodity index, which is sensitive to changes in the economic outlook, rose 9.07%.

Fixed income assets also delivered positive results for the quarter: the Bloomberg Barclays (BB) Global Aggregate index gained 2.66%, the BB U.S. Aggregate Bond index gained 0.62%. Long-term U.S. Treasurys were up 0.14% on the month; mortgage-backed securities rose 0.11%, investment-grade corporate bonds lost 1.54% and high-yield bonds gained 4.60%.

The economy continues to recover, albeit more slowly than before; with the pandemic intensifying — and now even the President infected — it remains an open question whether the recovery is sustainable. The Federal Reserve has been resolute in its commitment to provide economic and financial market stability, but central bank action alone may not be enough to sustain the recovery. Fiscal stimulus also will be needed but passing another stimulus bill has proven difficult in the current U.S. political climate, and may not be possible until after the November elections.

Asset Allocation

The Target Retirement Funds started off the third quarter with an overall overweight to equities relative to fixed income. Within the sub-asset class space, the Funds were overweight in domestic large and small cap equities and long government bonds. These positions were funded by underweight positions in international equities, real estate, core fixed income and Treasury inflation-protected securities (TIPS).
In July, the Funds removed long-government bond exposure in the far-dated vintages and reduced it in the near-dated vintages in favor of intermediate term bonds. At the time of the trade, the yield curve, had re-flattened and we believe it will likely steepen as economic and COVID-related data (e.g., hospitalizations) continue to improve. Also, in July the Funds purchased emerging market equities with proceeds from reducing intermediate bonds. This trade partially unwinds a short emerging market position enacted in May of this year. Rationale for the trade lies in the weakening U.S. Dollar and the fiscal-led recovery in China.

In August, long government bond exposure was reduced in favor of corporate credit across the income – 2035 vintages. This is a partial unwind of a tactical position overweighting long-duration that was implemented in April.

Overall, tactical positioning was positive for the quarter.

Underlying Managers

Underlying manager performance positively contributed to performance for the quarter. Top performers relative to their respective benchmark included the strategies Voya Multi-Manager International Equity, Voya Multi-Manager International Factors and Voya MidCap Opportunities. Bottom performers relative to their respective benchmark in the quarter included the Voya Large Cap Growth, Voya U.S. High Dividend Low Volatility and Voya Multi-Manager Mid Cap Value strategies.

Principal Risks: There is no guarantee that any investment option will achieve its stated objective. Principal value fluctuates and there is no guarantee of value at any time, including the target date. The target date is the approximate date when investors plan to start withdrawing their money. When their target date is achieved they may have more or less than the original amount invested. For each target-date portfolio, until the day prior to its target date, the Trust will seek to provide total return consistent with an asset allocation targeted at retirement in approximately each Trust’s designated target year. On the target date, the Trust’s investment objective will be to seek to provide a combination of total return and stability of principal consistent with an asset allocation targeted to retirement.

Stocks are more volatile than bonds, and trusts with a higher concentration of stocks are more likely to experience greater fluctuations in value than portfolios with a higher concentration in bonds. Foreign stocks and small and midcap stocks may be more volatile than large cap stocks. Investing in bonds also entails credit risk and interest rate risk. Generally, investors with longer timeframes can consider assuming more risk in their investment portfolios. The Voya Target Solution Trusts are actively managed and the asset allocation adjusted over time. The trusts may merge with or change to other trusts over time. Refer to the prospectus for more information about the specific risks of investing in the various assets classes included in the Voya Target Solution Trusts.

As with any portfolio, you could lose money on your investment in the Voya Target Solution Trust. Although asset allocation seeks to optimize returns given various levels of risk tolerance, you still may lose money and experience volatility. Market and asset class performance may differ in the future from historical performance and the assumptions used to form the asset allocations for the Voya Target Solution Trust. 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 Target Solution Trust.

Important factors to consider when planning for retirement include your expected expenses, sources of income and available assets. Before investing in the Voya Target Solution Trust, weigh your objectives, time horizon and risk tolerance. The Voya Target Solutions Trust invests in many underlying portfolios, which are exposed to the risks of different areas of the market. The higher a portfolio’s allocation to stocks the greater the portfolio’s overall risk. Diversification cannot assure a profit or protect against loss in a declining market.

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