Voya Target Retirement Funds

The Target Date Choice to Help Keep Retirement Goals on Track

Strategy overview

These portfolios are only offered as an investment option within variable products and retirement programs.

Key takeaways

- The U.S. economy has displayed remarkable resilience in the face of still high inflation, aggressive monetary tightening, banking sector stress and a standoff over the debt limit. Better than expected outcomes generally helped risk assets perform well in the second quarter with the United States leading the way.
- We are cautiously optimistic on the outlook for U.S. equities in the near-term and continue to favor domestic investments and higher quality fixed income.
- The Funds posted strong absolute returns for the period, but they underperformed relative to their strategic allocation benchmarks.

Market review

U.S. equity markets performed well during the second quarter. Large growth stocks led the way, with information technology stocks benefiting from chip manufacturers and companies tied to artificial intelligence. Stocks were buoyed by relief over Congress's passage of the bill to raise the debt ceiling. The U.S. economy and corporate earnings have remained resilient, bolstering the case for a soft landing. Despite elevated rates and tightening financial conditions in the first half of the year, valuations have expanded with the forward price-to-earnings (P/E) ratio on the S&P 500 around 19x, above the 25-year average.

International developed and emerging market stocks advanced but trailed U.S. stocks. European shares have been on a run, but economic indicators, such as composite Purchasing Mangers' Indexes, show slowing momentum. Japan delivered strong performance in local terms, but a weak yen pulled a chunk of it back from unhedged foreign investors. China stocks disappointed again amid concerns over a weaker than expected recovery after the country's emergence from Covid lockdowns.

Volatility in the U.S. bond market continued. Interest rates rose across the curve with the 10-year U.S. Treasury yield ending at 3.81%. The U.S. Federal Reserve executed two 25 basis point hikes during the period, bringing the Fed funds rate to a range of 5.00–5.25%, but did not implement a hike at its June meeting. Inflation continued to decline, but Fed officials maintained a hawkish stance with the Fed's "dot-plot" indicating two more hikes this year.

Outlook

The U.S. economy has displayed remarkable resilience in the face of persistently high inflation, aggressive monetary tightening, banking sector stress and a standoff over the debt-ceiling limit. While the U.S. has thus far managed to avoid perhaps the most widely anticipated recession in history, growth is almost certain to slow and profit increases will be difficult to come by. Consumer spending continues to provide a sturdy foundation but will likely come under increased pressure as government pandemic assistance and the suspension of student loan repayments conclude. Already, the rate of change in consumers spending is moderating and credit card delinquency rates are rising, but not to a concerning degree. This is because the labor market and wages have held up well. The unemployment rate is still near cycle lows of 3.6%. Job openings are trending down but remain well above

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the number of unemployed. Initial jobless claims have been edging higher and the quits rate has declined, but the overall state of the jobs market remains tight. As a result, average hourly earnings are growing at a pace inconsistent with the Fed's 2% inflation target. While indicators suggest wages are set to soften and commodities, core goods and prices overall continue to cool, we believe the Fed is not ready to take its foot off the brake yet.

The bond market, finally acknowledging this view, has reversed course, with futures pricing out the possibility of interest rate cuts this year and now roughly falling in line with Fed projections. Besides higher rates for longer, stricter credit conditions following the regional bank crisis should tighten financial conditions — which have yet to fully impact businesses and households. These factors support the disinflationary forces that are already in place. In our view, there are two variables that will weigh on inflation going forward: rents and used car prices. With respect to the former, the softening in demand should lead to declining prices across an array of discretionary services. For the latter, the steep drop in auto auction prices foretells the impending slump in inflation. The bottom line is that core inflationary pressures are fading alongside weaker economic growth. However, it does not mean a recession is imminent or that it will be deep and painful.

Market participants' recognition of cooling inflation and better-than-expected macro data contributed to surprisingly strong first half equity market returns and, with stocks still under-owned in many investor portfolios, we think there is room for modest gains from U.S. large caps in the second half of this year. Valuations look reasonable and earnings offer the potential for upside surprise as corporate sentiment improves and earnings guidance ratios have reached their highest levels since 2021. We cannot write off potential disappointment, as the range of S&P 500 earnings forecasts is the widest it has been in decades, with a 50% gap between the highest and lowest year-end price targets; however, we believe strong U.S. fiscal balances should limit any potential economic downturn.

The outlook for Japanese equities has improved thanks to governance reforms (which have led to higher foreign inflows) and earnings revisions turning positive. Another potential source of return for foreign investors could come from a stronger yen should the Bank of Japan abandon yield-curve control and Ministry of Finance intervention. However, we remain underweight in international developed equities overall given our views on Europe, as it lags the U.S. in the fight against inflation and wages there could be even stickier with labor's relatively stronger bargaining power. While China's economic slowdown could ease eurozone price pressures on the margin (given the high correlation between the two economies), the European Central Bank still has more work to do. With policy rates set to move higher and economic momentum decelerating, we think most of Europe's strong performance has already played out.

In China, frustrations linger — and, according to our research, could possibly worsen. The post-pandemic economic reopening narrative has faltered, real estate looks shaky, and the contraction in global manufacturing could create a headwind for cyclical assets broadly, resulting in more downside for China specifically. In addition, after years of poor market performance, a negative wealth effect could contribute to a liquidity trap where individuals hoard cash, making policy makers hesitant to aggressively stimulate. Yet, we think significant stimulus will be necessary to meaningfully boost asset prices, and any incremental policy measures ultimately will fail. We believe China will reluctantly export deflation via a weaker currency, helping to nudge U.S. inflation lower and support the U.S. dollar (which has continued to weaken over the last month), which accounts for our preference for domestic stocks. The move away from the dollar is clearly a long-term concern with foreign country reserves being rebalanced and trade arrangements reworked to "de-dollarize," but the near-term ramifications have been overstated and the currency now appears to be trading in a fair range with the potential for a reversal on a global risk-off event.

Concerns about growth and credit losses are valid, as the effect of higher rates weigh more heavily on earnings and borrowers' leverage ratios. As a result, we have tempered our long U.S. large cap position with underweights in the more economically sensitive areas of the equity market and favor higher-quality U.S. fixed income. We seek the yield pick-up from spread product, but in our view, it is not worth reaching below investment grade, where most companies have locked in cheap long-term rates.

Positioning

At the beginning of the period, Funds held modest tactical equity overweights and fixed income underweights on the front end, and modest equity underweights and fixed income overweights on the back end, relative to their strategic allocation benchmarks. On average across the Funds, equity sub-asset class allocations were overweight to U.S. large cap growth, small cap and emerging market equities and underweight in international developed equites and U.S. core bonds.

As part of its annual review in early April, the Funds enacted their glide downs, leading to lower equity weights in the 2050-2025 vintages. At the same time, the Funds' strategic asset allocations were reset, resulting in reduced allocations to U.S. mid cap equities and U.S. core bonds, and increases in short duration fixed income. Later in the period, portfolios managers (PMs) cut some of the Funds' underweights in international developed equities as a risk management trade, despite the region's still unfavorable risk-reward profile. Toward the end of April, the long U.S. large cap growth overweight was closed with proceeds being reallocated into U.S. core bonds. The flight to quality thesis played out faster than anticipated and PMs wanted to lock-in gains prior to earnings season. Finally, at the end of April, PMs reduced U.S. small cap equities and increased U.S. large cap equities. At the time, U.S. small caps remained oversold and traded at attractive relative valuations, but concerns over regional banking issues were expected to weigh on the asset class in the near term.

Performance

The Voya Target Retirement Fund's primary performance objective is to outperform its strategic allocation composite benchmark over the long-term through tactical asset allocation, i.e., deviating from the composite benchmark over the short and medium-term and active manager selection. The benchmark return is the weighted average return of Indices that represent asset classes included in the strategic allocation benchmark. Index returns are gross of all fees. The Funds are generally rebalanced monthly and the strategic asset allocations are updated annually to reflect changes to our capital market assumptions. In the second quarter of 2023, Funds' relative performance trailed their strategic allocation benchmarks. Tactical asset allocation and manager selection detracted.

Tactical asset allocation had a negative impact on performance during the period. Funds' overall underweights in equities and overweights to fixed income detracted, as stocks generally outperformed bonds in the quarter. At a sub-asset class level, overweights to U.S. small cap and duration, and underweights in international developed equities detracted. A tactical underweight in U.S. core fixed income was the main contributor.

Underlying managers were a headwind during the period. Strategies that contributed most to excess returns in the quarter were Voya Intermediate Bond, Voya Multi-Manager Emerging Markets Equity and Vanguard FTSE Developed Markets ETF. The biggest detractors in the quarter were iShares Core S&P Small-Cap ETF and Voya Multi-Manager International Equity.

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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The Fund discussed may be available to you as part of your employer sponsored retirement plan. There may be additional plan level fees resulting in personal performance to vary from stated performance. Please call your benefits office for more information.

Variable annuities and group annuities are long-term investments designed for retirement purposes. If withdrawals are taken prior to age 59½, an IRS 10% premature distribution penalty tax may apply. Money taken from the annuity will be taxed as ordinary income in the year the money is distributed. An annuity does not provide any additional tax deferral benefit, as tax deferral is provided by the plan. Annuities may be subject to additional fees and expenses to which other tax-qualified funding vehicles may not be subject. However, an annuity does provide other features and benefits, such as lifetime income payments and death benefits, which may be valuable to you.

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