

# Multi Asset Strategies and Solutions

## Strategy overview

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

You should consider the investment objectives, risks, and charges and expenses of the variable product and its underlying fund options; or mutual funds offered through a retirement plan, carefully before investing. The prospectuses / prospectus summaries / information booklets contain this and other information, which can be obtained by contacting your local representative or by calling (800) 992-0180. Please read the information carefully before investing.

## Key takeaways

- Global stocks and bonds produced strong returns in the final quarter of 2023, as waning inflation and dovish central bank communications caused interest rates to drop and capital markets to rally.
- In our view, disinflation should continue as economic growth slows, but U.S. labor markets will hold up relatively well, creating a backdrop in which domestic equities can move higher through 2024. We are less sanguine on the prospects for Europe and China.
- The Trusts posted positive absolute and relative returns for the period on a net asset value (NAV) basis.

## Market review

**During the fourth quarter, waning inflation in the United States and Europe** and a pause in the U.S. Federal Reserve's interest-rate hiking cycle helped most major asset classes rebound from the previous quarter's modest downturn. Developed market equities and global bonds were strong performers, while commodities lagged following the sector's exceptional performance in 2021 and 2022.

**Within equities, real estate investment trusts (REITs) and small caps** — which were previously challenged by higher rates — led during the quarter. Growth stocks beat value stocks, although both styles performed well. European equities trailed U.S. equities, due mostly to index composition rather than sector-level issues. Despite strong results in Latin America, emerging market equities suffered due to China's underperformance. Japanese and United Kingdom equities struggled on a combination of unfavorable exposure to energy names and the strength of the sterling.

**Lower rates boosted returns across the fixed income spectrum during the quarter;** government bonds performed particularly well. Investment grade bonds' generally longer duration helped them outperform high yield (HY). Emerging market debt was the best-performing fixed income sector, aided by lower global rates and a weaker U.S. dollar.

## Outlook

**After unexpectedly strong performance from the U.S. economy and capital markets last year,** investors enter 2024 more upbeat. While we are encouraged about the progress of inflation and the resiliency of consumers and corporations, we think noticeably slower economic growth, fair to modestly extended valuations and very optimistic forecasts around Fed rate cuts could limit upside potential for stocks. We see rates markets are providing little room for yields to decline outside a meaningful slowing of economic growth. Despite high expectations, we think global stocks and bonds can produce respectable returns throughout the year. The current setting presents opportunities for allocators to benefit from divergences in global policy, business cycles and pricing of risk.

In this macro environment, we emphasize balance in our multi-asset portfolios, but believe U.S. exceptionalism is set to persist.

**The disinflationary process continues as decongested supply chain issues and slowing demand forces have accounted for most of the recent relief.** We see more downside from factors such as shelter, and weaker wage growth as the lagged impact of tighter monetary policy further filters into the labor market, where there are early signs of weakness — such as declining job openings and quits. However, we do not expect significant deterioration in the labor market. Limited private sector overreach and rising real incomes from falling inflation should keep the growth downturn mild.

**U.S. equities may continue to outperform other countries and regions,** driven by their higher growth potential, proactive corporate rightsizing and robust earnings from unrivaled software innovation. We continue to be cautious on Europe as the region's cyclical gearing and relatively high interest rate sensitivity has made the sting from tighter policy more broadly felt. Europe is also more exposed to energy supply shocks and external demand from China, which is struggling. Exports have plunged, due in part to U.S. companies efforts to re-shore or move offshore manufacturing elsewhere. Furthermore, China's real estate sector, their main growth engine, is in freefall. We are mindful that sentiment is beaten down and look for signs that the Chinese authorities will implement coordinated policy action before shifting stances.

## Positioning

**At the beginning of the period,** Trusts held modest tactical equity underweights and fixed income overweights relative to their strategic allocation benchmarks. On average across the Trusts, sub-asset class allocations were overweight to U.S. large cap equities, duration and in near-dated vintages, treasury inflation-protected securities (TIPS). Trusts underweights included international developed equities, emerging market equities and HY.

**At the end of October,** portfolio managers (PMs) further extended duration in the 2030-2065 vintages by adding to long-term U.S. Treasuries and reducing core fixed income. At that time, real yields were around 2.40%, the highest in 15 years. PMs felt this was probably near peak interest rates, given their view that global growth is slowing, the Fed is done hiking and will probably begin

cutting rates in the first half of 2024. This proved a prescient move, as rates fell sharply in November. At the beginning of December, this portion of the long duration position was unwound at a gain, as rates hit a predetermined fair value level.

**Portfolios continue to favor U.S. assets** and maintain modestly defensive posture overall with a preference for U.S. large cap equities and core investment grade fixed income.

## Performance

**The Voya Target Solution Trusts' 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 Trusts are generally rebalanced monthly and the strategic asset allocations are updated annually to reflect changes to our capital market assumptions. In the fourth quarter of 2023, Trusts' relative performance exceeded their strategic allocation benchmarks. Tactical asset allocation and manager selection both contributed.

**Tactical asset allocation had a positive impact on performance during the period.** Trusts' long duration posture was the main contributor, as interest rates fell sharply. Underweights in emerging market equities and in near-dated vintages, HY also helped. Emerging markets were held back by China, which continues to struggle against domestic imbalances and geopolitical challenges. HY's relatively shorter duration was a drawback given the interest rate action during the period. Overweight to TIPS in near-dated vintages were the main tactical asset allocation detractor, as inflation expectations dropped to levels last seen at the end of April.

**Underlying managers relative results were positive across the Trusts. Strategies that contributed most to excess returns in the quarter were Voya VACS Series EME,** Sands Capital Select Growth Fund CIT and Brandywine Global – US Fixed Income CIT. The biggest detractors in the quarter were MFS Growth Equity CIT, Voya VACS Series Multi-Manager Mid Cap Value Fund and Voya Mid Cap Growth Fund CIT.

## Disclaimer

**Past performance is no guarantee of future returns.** All investing involves risks of fluctuating prices and the uncertainties of rates of return and yield inherent in investing. All security transactions involve substantial risk of loss. Please reference your client statement for a complete review of recent transactions and performance.

This commentary has been prepared by Voya Investment Management for informational purposes. Nothing contained herein should be construed as (i) an offer to sell or solicitation of an offer to buy any security or (ii) a recommendation as to the advisability of investing in, purchasing or selling any security. Any opinions expressed herein reflect our judgment and are subject to change. Certain of the statements contained herein are statements of future expectations and other forward-looking statements that are based on management's current views and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. Actual results, performance or events may differ materially from those in such statements due to, without limitation, (1) general economic conditions, (2) performance of financial markets, (3) interest rate levels, (4) increasing levels of loan defaults (5) changes in laws and regulations and (6) changes in the policies of governments and/or regulatory authorities.

The opinions, views and information expressed in this commentary regarding holdings are subject to change without notice. The information provided regarding holdings is not a recommendation to buy or sell any security. Fund holdings are fluid and are subject to daily change based on market conditions and other factors.

©2023 Voya Investments Distributor, LLC • 230 Park Ave, New York, NY 10169 • All rights reserved.

Not FDIC Insured | May Lose Value | No Bank Guarantee  
CMFC-TARGETSOL • 123123 • ex123124 • IM3347380 • WLT250006990

voyainvestments.com

