December 2017

Voya Multi-Asset Perspectives

Bullish Forces Still Driving Markets

During November a brief mid-month wobble in equities was met with significant buying, which propelled most major indexes to all-time highs. The United States outpaced emerging and developed market international equities for the month. U.S. small- and mid-cap stocks led the way; value, led by the banks, modestly surpassed growth. U.S. high yield bonds posted modest losses as credit spreads widened with the fleeting equity weakness. Ten-year U.S. Treasurys gained modestly.

The main drivers of strong equity returns this year have been easier financial conditions, due largely to U.S. dollar weakness and broad earnings and sales growth. The 6.5% decline in the trade-weighted dollar has resulted from better than expected global economic growth, increased risk-taking, rising demand for non-U.S. equities and U.S. political dissonance. Will the dollar continue weakening? It's not overvalued by long-term measures such as purchasing power parity, but the potential for larger budget deficits going forward may pressure the dollar further over the medium horizon. 3Q rounded out another solid quarter with sales growth of 5.5%, which beat expectations by the widest margin in over three years. Our expectations are for 10% earnings growth over the next 12 months.

The main fixed income theme has been flattening of the yield curve, measured as the difference between 10-year and 2-year Treasury yields. At the start of the year the difference was 120 basis points (bp), more recently the curve has flattened to 60 bp. When the yield curve goes to almost zero or inverts, generally it is a strong signal of imminent recession, with varying time lags. What has caused the flattening this year? The San Francisco Federal Reserve has issued a research note suggesting a lower normal interest rate, the risk of persistently low inflation and geopolitical uncertainty. We would add the enormous demand for higher yielding, high credit quality assets as another factor that has managed to anchor the 10-year note this year (Figure 1). In our view, the yield curve is one of many factors that bear monitoring for signs of a recession, and while it is flattening, it is not inverted.

Tactical Indicators

Economic Growth (Good):
Global growth is broadening among countries and regions

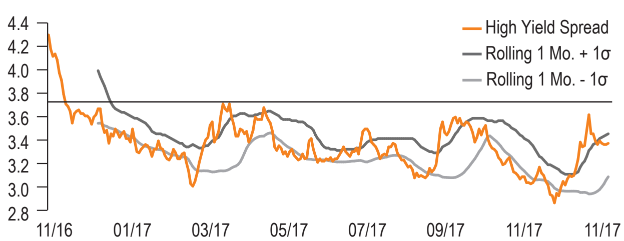
Fundamentals (Good):
Estimate revisions suggest continuing optimism about earnings (Figure 2)

Valuations (Stable):
Equities are not cheap except relative to bonds

Sentiment (Neutral):
S&P 500 put-call ratio is signaling modest investor enthusiasm (Figure 3)

Figure 1. Recent Sell-off in High Yield Bonds Appears to be Temporary

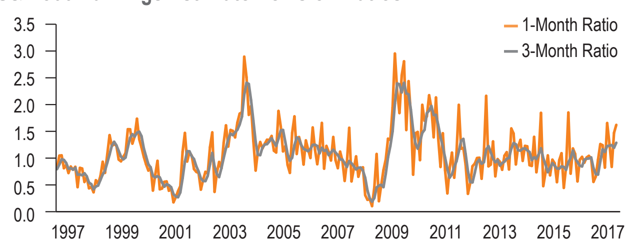
Rolling 1-Year Window of U.S. 10-Year High Yield Spreads (%)



Source: Bloomberg, Voya Investment Management. Data as of 11/28/17.

Figure 2. Earnings Revisions are Hooking Up

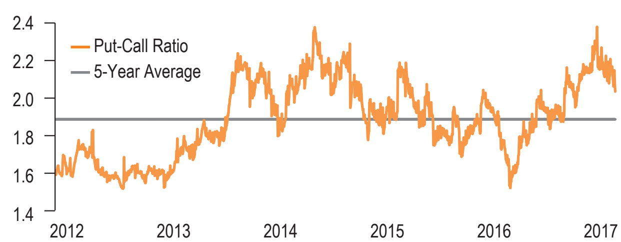
S&P 500 Earnings Estimate Revision Ratios



Source: FactSet. Data as of 11/30/17.

Figure 3. Demand for Hedging Downside Risk has been Diminishing

Put-Call Open Interest Ratio for S&P 500 Index Options



Source: Bloomberg. Data as of 11/28/17.

Portfolio Positioning

Equities	
U.S. Large Cap	Stronger 2H17 growth and better corporate profits are positive
U.S. Mid Cap	Valuations look somewhat expensive, but should benefit from strong earnings prospects
U.S. Small Cap	May benefit from the Trump administration's legislative agenda and U.S. dollar strength
International Equities	Rising global activity, lower political risks and attractive valuations make us positive, especially in Japan
Emerging Market Equities	Easy financial conditions, solid global growth and attractive valuations are supportive
REITS	Relatively good yields, but full valuations and mature real estate cycle have us neutral
Commodities	Crude oil making first sustained rise over $50/barrel since May, on increased demand forecasts and some threats to supply
Fixed Income	
U.S. Core Fixed Income	U.S. Treasury yields at middle of post-election trading range, buoyed by increased risk appetite after sluggish August, and renewed hopes for tax plan
Non-Investment Grade	High yield spreads near cycle tights, offer less value in the face of rising rates. Income potential and floating rate coupon still make loans attractive
International Fixed Income	Persistent deflationary pressures and low yields lead us to favor U.S. bonds

Underweight Neutral Overweight

Investment Outlook

As we reflect back on the very good year for equity markets globally (19.82% MSCI All Country World Index in U.S. dollars total return) it's natural to ask, how much further can equities rise into 2018? Here we rest on our valuation, fundamental and sentiment investment process. In terms of valuation, MSCI All Country world is at 16.2x price/earnings multiple and the U.S. is at 18.3x earnings. Neither are what could be characterized as undervalued. On fundamentals, the consensus expectation of 10% global earnings growth looks achievable. The combination of above-trend global and U.S. economic growth and profit growth aided by corporate tax reform supports a positive outlook for equities. In terms of sentiment, the picture is a bit mixed: a handful of our measures are reflecting a degree of excessive optimism but the momentum and the strength of buying the dip even on most modest pullbacks tells us that the investment community is still keenly searching for returns (Figure 3) and repositioning away from downside protection.

We do expect a change in the equity and bond volatility profile over the course of 2018. It was relatively normal to have very low levels of volatility and modest pullbacks in equities over the past 18 months, as we had increasing momentum and breadth to economic and earnings growth. Going forward, while we still expect the data to be good, we may start to see a slowdown in its rate of change. We don't think that is a game changer, however, the S&P 500 index has now had 265 days without a 3% pullback, which is a record based on historical data since 1930. Thus, it may be that equities grind higher for 2018, but the grind will be punctuated with one or two pullbacks of 5% or greater. We are watching the breadth of global markets with rising 200-day moving averages, which are hovering over 90%, still a positive picture. Global equity to global bond correlations are positive and have been for the past three years. We look there as well for signs of stress to equities – which would be bond yields climbing to a point where they pinch the outlook for corporate profits.

Our portfolio remains positioned for a positive global growth outlook. Our long held constructive view on the emerging markets remains, even in light of some relative weakness during late November. The emerging markets are still benefiting from a weak U.S. dollar and easy financial conditions. Likewise, we are maintaining our positive view on Japanese equities, which stumbled but recovered nicely in November. We see it as one of the markets with solid growth prospects, decent valuations and monetary policy that continues to be highly accommodative.

Past performance does not guarantee future results.

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.

Voya Investment Management Co. LLC ("Voya") is exempt from the requirement to hold an Australian financial services license under the Corporations Act 2001 (Cth) ("Act") in respect of the financial services it provides in Australia. Voya is regulated by the SEC under U.S. laws, which differ from Australian laws.

This document or communication is being provided to you on the basis of your representation that you are a wholesale client (within the meaning of section 761G of the Act), and must not be provided to any other person without the written consent of Voya, which may be withheld in its absolute discretion.

Multi-Asset Strategies and Solutions Team

Paul Zemsky, CFA
Chief Investment Officer, Multi-Asset Strategies

Barbara Reinhard, CFA
Head of Asset Allocation, Multi-Asset Strategies

Voya Investment Management's Multi-Asset Strategies and Solutions (MASS) team manages the firm's suite of multi-asset solutions designed to help investors achieve their long term objectives. The team consists of 25 investment professionals who have deep expertise in asset allocation, manager selection and research, quantitative research, portfolio implementation and actuarial sciences. Within MASS, the Asset Allocation team, led by Barbara Reinhard, is responsible for constructing strategic asset allocations based on its long-term views. The team also employs a tactical asset allocation approach, driven by market fundamentals, valuation and sentiment, which is designed to capture market anomalies and reduce portfolio risk.

CMMC-MAP-1117 120417 • IM1201-38831-1218