May 2018

Voya Multi-Asset Perspectives

Equity Support Remains Intact

Although April started out as a bit of a tantrum for global equities, they managed to regain their composure and posted modest gains. Fixed income posted losses as bond yields marched higher, although a few credit related indexes were flat to slightly up for the month.

It has been a frustrating few months for equity investors. The 10% peak-to-trough decline in February followed by an early April re-test of the lows has left most equity markets with low single-digit losses year-to-date. There are a number of theories on what caused the first 10% correction in over two years, e.g., short volatility sellers and speculation of a U.S. trade war. We think there is a simpler explanation: a slowing in some measures of economic growth.

Slowdowns are common, especially after periods of strong growth such as we saw in 2017. The past 22 years have seen 13 episodes of slower growth that did not morph into recessions. On average, these periods tend to last five months. Most of the recent weakness has centered in the developed markets, which is a positive since growth slowdowns that lead to outright recessions tend to be more broad-based, engulfing both the developed and emerging markets.

In our view, growth will rebound in the coming months for a few key reasons. First, country and regional factors that played a role in 1Q weakness, such as unusually cold weather in the UK and strikes in France, are unlikely to repeat. Second, although many of our most reliable business surveys are down from their highs, readings are still consistent with a healthy pace of economic growth. Last, fundamental underpinnings are quite strong. Employment growth (Figure 1) supports consumer spending and household debt burdens are modest. Even though monetary policy is tightening, inflation-adjusted rates are quite accommodative.

In summary, we are positive on equities. The growth downshift in 1Q18 is likely to be temporary, positioning is meaningfully lower and sentiment, which was overly optimistic earlier in the year, reached mildly oversold levels. While global equities have struggled to regain upside momentum, we believe there is enough support to sustain the uptrend.

Tactical Indicators

Economic Growth (positive):
Growth is off its peak, but underlying fundamentals are solid

Fundamentals (positive):
1Q18 earnings have resulted in record statistics, with the most EPS and sales beats since 2000

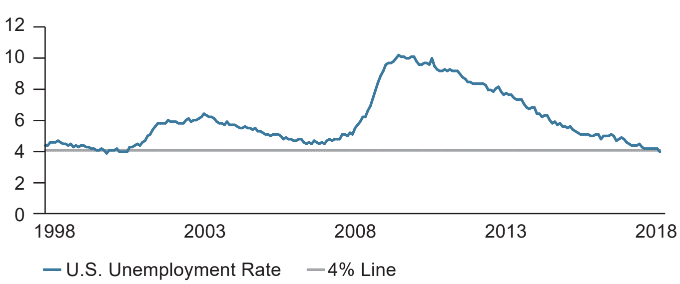
Valuations (neutral):
The S&P 500 has de-rated back to a 16x forward P/E, the same level at the start of 2017 (Figure 2)

Sentiment (neutral):
The S&P 500 has now formed a triple bottom and trades above its 200-day moving average (Figure 3)

Figure 2. The Recent Pullback Has Brought U.S. Equity Valuations below Their Three-Year Average

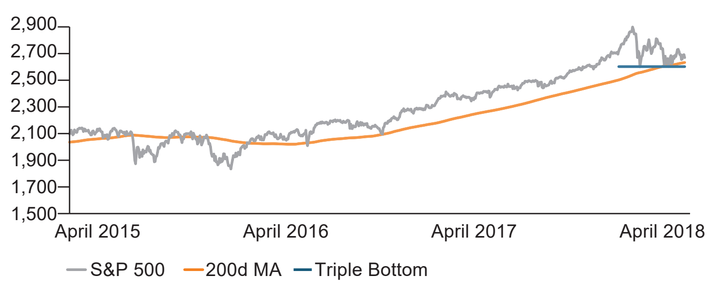
Source: Bloomberg and Voya Investment Management, data as of 4/30/2018.

Figure 1. The U.S. Unemployment Rate is now under 4%, Last Seen in 2000



Source: Bloomberg and Voya Investment Management, data as of 4/30/2018.

Figure 3. The S&P 500 Continues to Trade above its 200-Day Moving Average



Source: Bloomberg and Voya Investment Management, data as of 4/30/2018.

Portfolio Positioning

Equities	●	
U.S. Large Cap	○○●	Recent pullback in valuations combined with strong growth and earnings create relative attractiveness
U.S. Mid Cap	○●○	U.S. corporate tax reforms are fully incorporated into prices
U.S. Small Cap	●○○	Modest underweight as U.S. corporate tax reforms have been fully priced in and advanced cycle is not favorable
International Equities	○●○	Building positions as there is more slack in non-US labor markets and low inflation rates are attractive attributes
Emerging Market Equities	○○●	Supported by solid current account positioning and good growth, fade current weakness
REITS	●○○	Rising interest rates, full valuations and mature real estate cycle have us underweight
Commodities	○●○	Crude oil's climb to around $70/barrel looks durable
Fixed Income	●	
U.S. Core Fixed Income	●○○	Closer to fair value, but further rises in interest rates act as major headwind
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 senior loans attractive
International Fixed Income	●○○	Low yields lead us to favor U.S. bonds

Underweight ● Neutral ● Overweight ●

Investment Outlook

During April, we concluded our annual strategic asset allocation review for the next 12 months. We remain positive on equities based on two strong fundamental global drivers: solid corporate profits and synchronous economic growth. We are mindful, however, that the cycle has advanced and labor markets have continued to tighten during 2018, particularly in the United States. Within equities, we are moving toward developed international and emerging markets and away from small- and mid-cap stocks in the U.S.

Our work indicates that markets outside the U.S. have more slack in terms of inflation and labor markets and therefore will not be tightening policy as quickly as the U.S. over the course of this year. Additionally, we see that some of the long-held reasons that the U.S. has been outperforming the rest of the world are falling to the wayside, with current account and budget deficit dynamics scoring much more favorably in the emerging markets than elsewhere in the world. Within developed international equity markets, we see them having signs of a slow but sustainable growth trajectory and more accommodative monetary policy, which should favor their equity markets over the U.S. for the next 12 months. To be sure, our 10-year capital market assumptions still forecast higher returns for the U.S.; but over the next one to three years, we think the U.S. may lag the rest of the world.

In terms of fixed income, we still believe equities will outpace bonds but we have scaled back our duration underweight. We recognize bond yields have come quite a long way from the lows of mid-2016, when 10-year U.S. Treasurys were at 1.36%, and the rise in yields has ameliorated some of the material richness in bonds. Nevertheless, we are still underweight duration, but less so than in 2017. We remain underweight high yield and find better value in senior loans, which can benefit from higher short-term interest rates. We also maintain our underweight to international fixed income, as yields are unfavorable.

Past performance does not guarantee future results.

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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.

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