July 2019

Voya Multi-Asset Perspectives

Oversold Conditions and Dovish Policy Shift Trigger Rebound in Stocks

May's sharp sell-off in stocks was swiftly countered by a rally in June that helped drive global equity markets to their best first half-year performance in over two decades. The MSCI ACWI index returned more than 16% (Figure 1); yet another example of the resilience the markets and economy have displayed throughout this expansion, now the longest on record. The resurgence in stocks was largely due to a combination of a trade truce and dovish Federal Reserve guidance on the direction of future monetary policy. Although the G20 summit did not result in a comprehensive trade deal, the United States and China did agree that tariffs will not rise further, at least for now. Trade tensions have certainly been part of the global growth slowdown in 2019, but conciliatory communications leading up to the summit and the postponement of new tariffs on roughly $300 billion of Chinese goods have provided investors with renewed hope that trade issues will not derail the global economy. Still, until a deal is reached, a resurgence of trade tensions remains a very real risk.

Fed Chairman Powell acknowledges trade and other concerns continue to weigh on the international and U.S. economic outlook. He also emphasizes that inflation pressures remain muted and inflation is below the Fed's symmetric 2% objective. Market participants seem pleased with the Fed's apparent move from data dependent monetary policy to a pre-emptive risk management approach. With the fed funds futures market currently pricing in a better than 50% chance of 75 basis points (bp) of interest rate cuts by year-end, however, we believe there is room for disappointment. Nevertheless, against the backdrop of slowing economic growth, weak global manufacturing (Figure 2) and challenging earnings forecasts, a 25 bp cut in July looks certain, with another 25 bp reduction in September likely. Major developed market economies including the Eurozone, Japan and UK face similar headwinds; their central banks have affirmed cautious stances and appear poised to deploy additional stimulus as needed.

Tactical Indicators

Economic Growth (neutral):
Although consumer spending remains strong, weak business investment has detracted from growth

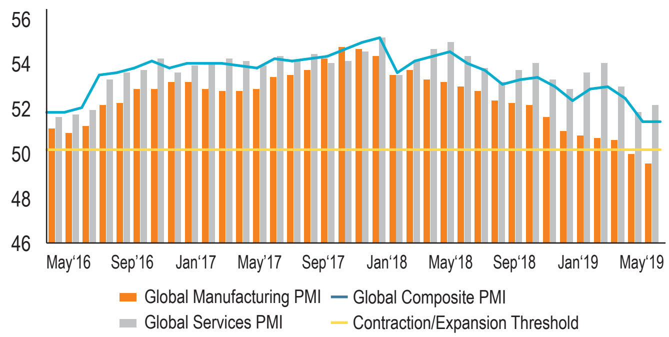
Fundamentals (positive):
Earnings growth is expected to remain tepid but positive

Valuations (neutral):
Global stock valuations are around the mid-point of their 25-year range, with Japan still far below its average

Sentiment (neutral):
Sentiment has moved from near oversold levels back to neutral

Figure 2. Global manufacturing PMIs are in contraction territory

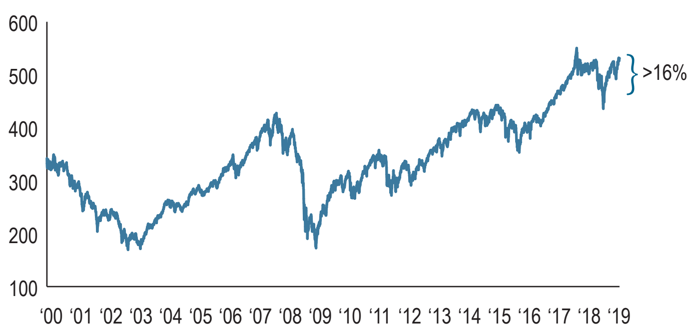
JP Morgan Global PMI Indices



Global PMIs are the JPMorgan Global Composite, Manufacturing and Services PMI Indexes.
Source: Bloomberg, Voya Investment Management, as of 6/30/19

Figure 1. World stocks deliver exceptionally strong first half returns

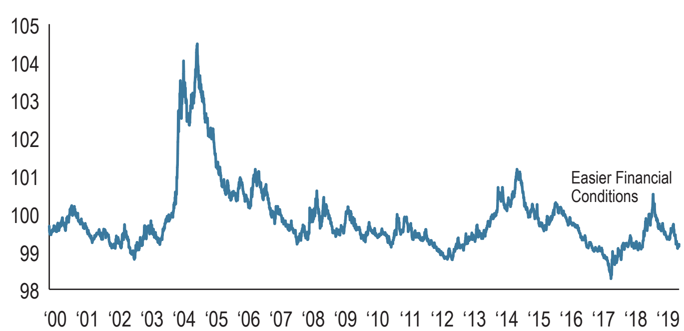
MSCI ACWI Price History



Source: Bloomberg, Voya Investment Management, as of 6/30/19

Figure 3. Financial conditions continue to ease

GS U.S. Financial Conditions Index



Source: Goldman Sachs, Bloomberg, Voya Investment Management, as of 7/17/19

Portfolio Positioning

Equities	
U.S. Large Cap	Reasonable valuations and resilient earnings create relative attractiveness versus fixed income
U.S. Mid Cap	Late cycle and full valuations offset decent near-term earnings outlook
U.S. Small Cap	Susceptible to increasing operating costs because of high leverage
International Equities	Relatively slow growth, volatile political backdrop and fragile European banking system
Emerging Market Equities	With less EM currency volatility and supportive global monetary policy, we expect the growth outlook to brighten and equity performance to begin converging to DM
REITS	May act as a buttress during high levels of volatility due to their yield attractiveness and healthy fundamentals, but cap rates are low
Fixed Income	
U.S. Core Fixed Income	We favor quality investment grade bonds over high yield given the late stages of the credit cycle
Non-Investment Grade	Favor high quality fixed income; tight spreads, illiquidity concerns and limited yield advantage make loans more attractive than high yield
International Fixed Income	Low absolute and relative yields lead us to favor U.S. bonds

Underweight Neutral Overweight

Investment Outlook

Our view continues to be that global economic expansion will persist through 2019 and into 2020. Though there has been some softness in recent U.S. economic data, the Fed seems to be cognizant of the risks facing the economy and we believe it will provide the support necessary to prolong the cycle and keep U.S. GDP growing above its ~1.7% trend rate. Underlying our pro-growth outlook are resilient U.S. consumers, aided by positive labor market dynamics and increasing availability of credit. Strong consumer spending and the continued expansion should underpin corporate earnings and in turn equity prices. While stock valuations by themselves are not particularly attractive, they are roughly in line with long-run averages and are more appealing than fixed income, thus justifying our preference for equities.

Regionally, we favor U.S. over non-U.S. equities. Supportive monetary policy, a pause in escalating trade tensions and a generally less-volatile geopolitical environment reassure us that the U.S. will continue to lead. We recognize that the yield curve is alarmingly flat, but our read on the bond market is that unprecedentedly low foreign developed sovereign bond yields are capping U.S. yields. Until real yields turn decidedly positive, financial conditions will be easy (Figure 3) enough to allow stocks to advance. Our penchant for emerging market equities over international developed equities remains unchanged. We see the U.S. dollar stable to weaker over the short- to medium-term and emerging country assets benefiting as a result. Moreover, EM economies are in the earlier stages of their recovery and have room to catch up. Trade frictions have certainly weighed on EM companies' ability to increase profits. Should fighting flair up again, this position could suffer. While we do not deny the likelihood of future trade-related episodic volatility and the existence of incentives for both sides to prolong the battle, we believe that we will avoid a full-blown trade war that broadens into other countries and that coordinated central bank action will help cushion temporary tremors.

We are not, however, risk-on across the board. Our fixed income portfolios are positioned with a higher quality bent. We maintain our underweight to high yield given what we see as limited room for further spread compression and greater risk-adjusted return opportunities on the stock side. We have also recently lessened, but still hold, our overweight to senior loans. Loans and high yield are both yielding approximately the same amount, which is highly unusual. For the same coupon and seniority within the capital structure, loans appear to us to be the better choice.

Multi-Asset Strategies and Solutions Team

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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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