Commentary | 2Q23

Voya MidCap Opportunities Strategy

Seeking a More Favorable Risk/Return Trade-off

Strategy overview

Actively managed mid-cap growth strategy that relies on fundamental research and analysis to identify companies with strong and accelerating business momentum, increasing market acceptance and attractive valuations.

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

- After much speculation over when the seemingly inevitable recession would hit, markets have continued to defy the narrative with yet another strong quarter. Unemployment remains at historic lows and the economy has thus far shown itself to be much more resilient than expected.
- For the quarter, the Strategy outperformed its benchmark, the Russell Midcap Growth Index (the Index), on a net asset value (NAV) basis, due to favorable stock selection, particularly within the health care, information technology and consumer staples sectors.
- With inflation easing, it appears that the U.S. Federal Reserve is nearing the end of the rate hike cycle. We are cautiously optimistic that we can achieve the soft landing scenario.

Portfolio review

U.S. equity markets performed well during the second quarter, with most of the gains made in June. Stocks were buoyed by relief over Congress's passage of the bill to raise the debt ceiling. The S&P 500 Index notched its best monthly performance of 2023 during the final month of the period, gaining 6.61% in June and 8.74% for the quarter. Information technology stocks delivered strong performance during the quarter, driven by artificial intelligence and chip manufacturers. Growth stocks outperformed value stocks during the period. After poor performance in April and May, small caps rebounded in June and outperformed larger stocks.

Volatility in the U.S. bond market continued during the quarter. The Bloomberg U.S. Aggregate Bond Index lost –0.84%, while the 10-year U.S. Treasury yield rose from 3.43% at the beginning of the quarter to 3.81% by quarter-end. The Fed raised rates by 25 basis points twice 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. Still, Fed officials maintained a hawkish stance through the end of the quarter; although core inflation has decreased significantly from 2022, it has persisted well above the 2% target. The Fed's "dot plot," which serves as a predictor of rate movements, indicates two additional hikes this year.

For the quarter, the Strategy outperformed the Index due to stock selection. Stock selection within the health care, information technology and consumer staples sectors contributed the most to performance. The materials and consumer discretionary sectors were the greatest detractors.

Key contributors to the quarter's performance were Palo Alto Networks, Inc., Celsius Holdings, Inc. and MongoDB, Inc.

Owning a non-benchmark position in Palo Alto Networks, Inc. (PANW) contributed to performance. The company reported a strong quarter during the period. Demand appears to be tracking to the high end of guidance and demand increase for newer services suggests strong revenue growth going forward.

An overweight position in Celsius Holdings, Inc. (CELH) contributed to performance. The company reported a strong quarter with accelerating sales growth. CELH is also in discussions with Pepsico regarding entry into select international markets, likely beginning in 2024.

An overweight position in MongoDB, Inc. (MDB) contributed to performance. The company reported a strong quarter, with both revenue and margins coming in higher than anticipated. They also provided better-than-expected guidance.

Key detractors for the quarter were Amylyx Pharmaceuticals, Inc., Palantir Technologies Inc. and Tradeweb Markets, Inc.

Owning a non-benchmark position in Amylyx Pharmaceuticals, Inc. (AMLX) detracted from performance. The company received a negative opinion from the Committee for Medicinal Products for Human Use (CHMP) of the European Medicines Agency (EMA) on their application for conditional marketing authorization for AMX0035 for the treatment of amyotrophic lateral sclerosis (ALS) in Europe.

Not owning a position in Palantir Technologies Inc. (PLTR) detracted from performance. The company reported mixed results during the period but management indicated that they plan to aggressively pursue the growing demands for AI.

An overweight position in Tradeweb Markets, Inc. (TW) detracted from performance. The company reported an in-line quarter, but lowered estimates on volume weakness.

Current strategy and outlook

The U.S. economy has remained resilient as have corporate earnings, fueling the debate of a hard versus soft landing. We still believe there may be greater volatility to come given uncertainty over Fed rate policy in the second half of the year; mixed business sentiment and slowing economic growth; and whether a recession will actually happen, and if so, the duration and depth. The real story has been the resilience of corporate earnings and rise in equity valuations as interest rates begin to normalize. Using price-to-earnings (P/E) ratio as a proxy, valuations for the S&P 500 Index ended 2022 well below 2019 levels. However, despite elevated rates and tightening financial conditions in the first half of the year, valuations have expanded modestly. P/E ratios are still below 2019 levels, and we believe earnings expectations are reasonable, but this could change as we enter 2024 depending on the state of the U.S. economy.

Holdings detail

Companies mentioned in this report – percentage of portfolio investments, as of 06/30/23: Palo Alto Networks, Inc. 1.74%, Celsius Holdings, Inc. 0.80%, MongoDB, Inc. 1.82%, Amylyx Pharmaceuticals, Inc. 0.86%, Palantir Technologies Inc. 0% and Tradeweb Markets, Inc. 1.86%; 0% indicates that the security is no longer in the portfolio. Portfolio holdings are subject to daily change.

The **Russell Midcap Growth Index** is an unmanaged Index that measures the performance of those companies included in the Russell Midcap Index with relatively higher price-to-book ratios and higher forecasted growth values. The Index does not reflect fees, brokerage commissions, taxes or other expenses of investing. Investors cannot invest directly in an Index.

Principal Risks: All investing involves risks of fluctuating prices and the uncertainties of rates of return and yield. **Foreign Investing** poses special risks including currency fluctuation, economic and political risks not found in investments that are solely domestic. Investing in stocks of **Mid-Sized Companies** may entail greater volatility and less liquidity than larger companies. The Portfolio may use **Derivatives**, such as options and futures, which can be illiquid, may disproportionately increase losses and have a potentially large impact on Portfolio performance. Other risks of the Portfolio include but are not limited to: **Growth Investing Risks, Market Trends Risks, Other Investment Companies' Risks, Price Volatility Risks, Liquidity Risks, Securities Lending Risks and Portfolio Turnover Risks. Investors should consult the Portfolio's Prospectus and Statement of Additional Information for a more detailed discussion of the Portfolio's risks. An investment in the Portfolio is not a bank deposit and is not insured by the Federal Deposit Insurance Corporation, the Federal Reserve Board or any other government agency.**

The strategy employs a quantitative model to execute the strategy. Data imprecision, software or other technology malfunctions, programming inaccuracies and similar circumstances may impair the performance of these systems, which may negatively affect performance. Furthermore, there can be no assurance that the quantitative models used in managing the strategy will perform as anticipated or enable the strategy to achieve its objective.

The strategy is available as a mutual fund or variable portfolio. The mutual fund may be available to you as part of your employer sponsored retirement plan. There may be additional plan level fees resulting in personal performance that varies 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.

Variable investments, of any kind, are not guaranteed and are subject to investment risk including the possible loss of principal. The investment return and principal value of the security will fluctuate so that when redeemed, it may be worth more or less than the original investment. In addition, there is no guarantee that any variable investment option will meet its stated objective. All guarantees are based on the financial strength and claims paying ability of the issuing insurance company, who is solely responsible for all obligations under its policies.

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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. Portfolio holdings are fluid and are subject to daily change based on market conditions and other factors.

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