Commentary | 2Q24

Voya Balanced Large Cap Core-Value SMA (Merrill Lynch)

Strategic Allocations to Actively Managed Equity and Fixed Income Assets

Strategy overview

A 55/45 equity/fixed income, multi-asset strategy providing exposure to the investment expertise of the Voya Investment Management equity and fixed income teams in a single strategy.

Key takeaways

- Market performance was mixed during the quarter as investors navigated macro uncertainties. U.S. large cap growth was up while international, small caps and value lagged. The rally in U.S. growth was dominated by semiconductors, technology hardware, as well as media and entertainment industries as the artificial intelligence trade once again led markets.
- Fed Chair Powell acknowledged modest progress on taming inflation at the central bank's June meeting, he emphasized the need for more confidence about the inflation situation before making any changes to rates.
- Despite challenges, the U.S. economy remains resilient. Inflation remains a key focus, with the U.S. Federal Reserve holding interest rates steady to curb its impacts. Economic and Fed data continue to call for "status quo" equity positioning. However, we anticipate a regime shift as the market gains confidence in the next phase of Fed policy.

Market review

U.S. stocks advanced during the second quarter on continued strength in the labor market and in several key economic measures. The S&P 500 Index rose by 4.28% during the quarter and the Nasdaq Composite grew by 8.26%. The information technology and communication services sectors led, while energy and materials lagged. Large-cap stocks outperformed small caps and growth significantly beat value. The Federal Open Market Committee held interest rates steady throughout the quarter and is now expected to cut rates only once in 2024. While Fed Chair Powell acknowledged modest progress on taming inflation at the central bank's June meeting, he emphasized the need for more confidence about the inflation situation before making any changes to rates.

U.S. bond performance was essentially flat during the quarter. The Bloomberg U.S. Aggregate Bond Index inched up 0.07%, and the 10-year U.S. Treasury yield rose from 4.33% at the start of April to 4.36% by quarter end.

The resilience of the U.S. economy persists. Despite the effects from continued monetary tightness, economic growth remains strong, driven by gains in payrolls and productivity. Consumer spending is stable, supported by a significant increase in household net worth. However, consumer confidence remains below average due to the lasting impact of higher prices. While inflation has fallen to more manageable levels, concerns about overheating persist. While core inflation has declined for 14 consecutive months, core services prices are still rising. A downshift in growth and loosening of the labor market may be necessary to maintain inflation near the Fed's 2% target. This does not imply significant economic weakness, but it may keep rates higher for longer than expected.

Strong earnings momentum — which could continue through the year — has supported U.S. stocks. The growth and quality of earnings have justified expensive stock valuations, particularly in mega-cap technology stocks. However, we expect the rally to broaden, with value-oriented and smaller cap segments taking the lead. The economic soft landing and anticipated rate cuts should create favorable conditions for U.S. stocks, despite potential near-term pullbacks.