Voya Large Cap Core-Value SMA (Merrill Lynch)

Actively managed portfolio of high-dividend-yield and dividend-growth stocks

Strategy overview

An actively managed large cap value strategy that relies on fundamental research and analysis to capture the benefits of both high-dividend-yield and dividend-growth stocks.

Key takeaways

- The market finished the year on a high note, capping a strong year for equities. Inflation has begun to subside, and unemployment remains under 4% for the 22nd consecutive week. The underlying economy appears to be stronger than most anticipated.
- For the quarter, the Merrill Lynch Large Cap Core-Value SMA (the SMA) outperformed the S&P 500 Index (the Index), on a net asset value (NAV) basis.
- Consumer confidence continues to increase, and there is cautious optimism that we can achieve the desired soft-landing scenario and avoid a recession going into the new year. Markets are already anticipating several rate cuts in 2024 which should be good news for equities.

Portfolio review

U.S. equity markets ended the quarter on a high note, bolstered by economic resilience, waning inflation and a pause in the U.S. Federal Reserve's interest rate hiking cycle. The S&P 500 Index rose by 11.69% and the Nasdaq Composite Index advanced by 13.56%. Information technology stocks led while utilities lagged. Growth stocks outperformed value stocks during the quarter, and small caps beat large caps.

The U.S. bond market staged a comeback during the quarter. The Bloomberg U.S. Aggregate Bond Index gained 6.82% on the unexpected strength of the economy. The 10-year U.S. Treasury yield moved from 4.69% at the beginning of the quarter to 3.88% by quarter-end as inflation eased and expectations of interest rate cuts in 2024 grew.

For the quarter ended December 29, 2023, the SMA outperformed the Index on a NAV basis due to favorable stock selection. Stock selection in the communication services, consumer discretionary, health care and information technology sectors contributed the most to performance. At the individual stock level, a non-benchmark position in Pinterest, Inc., not owning a position in Exxon Mobil Corp. and an overweight position in Advanced Micro Devices, Inc. were among the SMA's largest contributors for the quarter.

Stock selection within the industrials and materials sectors had the largest negative impact on performance. Negative allocation effects in the information technology and health care sectors also detracted. At the individual stock level, an overweight position in Paycom Software, Inc. and Valero Energy Corp., as well as a non-benchmark position in BP p.l.c were among the key detractors for the quarter.

Current strategy and outlook

In our view, the side effects of the pandemic shock have mostly subsided, and inflation is the final piece of the puzzle. We view the recovery not as a classic business cycle, but as an economy trying to normalize following a natural disaster. First came the government-mandated lockdowns and the bust. Then came the re-openings and the effects of mega-policy stimulus. Lastly came the 180-degree reversal in monetary policy. Inflation peaked in June 2022 at 9.1%, which means that most of the disinflation we have seen since then has had little to do with Fed policy. We believe that disinflation could continue (and may intensify) over the next 18 months. Corporate earnings are accelerating as the U.S. consumer remains healthy and corporate fundamental factors are sound.

Disclaimer

This commentary is designed to report on the Large Cap Core Value SMA strategy as reported by Voya Investment Management (Voya IM) and is for illustrative purposes only. The information contained herein is obtained from multiple sources and believed to be reliable. Information has not been verified by Merrill Lynch and may differ from documents created by Merrill Lynch. Clients should refer to the Merrill Lynch Profile, which you can obtain from your Financial Advisor. For additional information or other programs speak to your Financial Advisor.

Merrill Lynch, through its affiliate, Managed Account Advisors, LLC (MSS) will be the overlay portfolio manager (OPM) for this investment style. Voya IM will provide securities recommendations to the OPM generally in the form of a model which includes the specific securities and the percentage allocation to each security to be held in client accounts. This investment advice is updated by Voya IM whenever the recommendations change. The OPM generally implements the invest advice of Voya IM without change, subject to any reasonable client-imposed restrictions and, to the extent possible, tax considerations. Voya IM can, after consultation with Merrill Lynch, place orders for certain block trades with Merrill Lynch or another broker-dealer. Voya IM is not affiliated with Merrill Lynch.

The **Standard and Poor's 500 Index** is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries. The index includes 500 leading companies and covers approximately 80% of available market capitalization. Index returns do not reflect fees, brokerage commissions, taxes or other expenses of investing. Investors cannot invest directly in an index.

Index source: Factset. We deem this to be a reliable source, but cannot guarantee accuracy and completeness. Indices are unmanaged and one cannot invest directly in an index. It should not be assumed that securities held in the future will be profitable or will equal the performance of the securities mentioned herein. One account was selected by our portfolio managers as a representative account that generally best represents this investment management style. Actual holdings of other Large Cap Core portfolios managed by Voya Investment Management may differ. Voya Investment Management did not use performance-based criteria in determining which account to include. The performance of Large Cap Core portfolios may be better or worse than that of this sample portfolio. Dividend yield represents past performance and there is no guarantee that they will continue to be paid.

All investing involves risks of fluctuating prices and the uncertainties of rates of return and yield inherent in investing. All security transactions involve substantial risk of loss. Please reference your client statement for a complete review of recent transactions and performance.

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.

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.
Past performance is no guarantee of future returns.

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.

SMAC-SI-MLC 123123 • ex123124 • IM3315868 • WLT250007033