Commentary | 3Q26

Voya Strategic Allocation Passive Portfolio

Custom-designed risk-based strategic model portfolios designed for long-term wealth building

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Strategy overview

The Strategic Allocation Model Passive Series offers four portfolios—All Equity, Aggressive, Growth, and Moderate Conservative—providing low-cost, diversified market exposure designed to align with a range of risk and return objectives.

Key takeaways

- Market conditions became more challenging in the third quarter as rising oil prices, higher bond yields, renewed Middle East hostilities, and tighter U.S. Federal Reserve policy weighed on sentiment. U.S. large caps advanced, but smaller companies, fixed income, and real estate struggled as higher rates weighed on valuations.
- Looking ahead, we remain cautiously constructive on risk assets as resilient growth and investment in AI infrastructure, energy security, defense and reshoring continue to support activity. Still, higher yields, sticky inflation and geopolitical risks warrant a quality bias across high-quality U.S. equities, differentiated international opportunities and intermediate-duration U.S. core bonds, given their balance of earnings potential, income and stability.
- During 3Q26, the Voya Strategic Allocation Passive Portfolios delivered mixed absolute returns and negative relative returns.
- On a net-of-fees basis for the following: The Voya Strategic Allocation Passive Moderate Conservative Portfolio, Voya Strategic Allocation Passive Growth Portfolio, Voya Strategic Allocation Passive Aggressive Portfolio, and Voya Strategic Allocation All Equity Passive Portfolio underperformed the S&P Target Risk Moderate, S&P Target Risk Growth, S&P Target Risk Aggressive Indices, and 98.5% ACWI IMI/1.5% Cash respectively.

Market review

Global markets faced a more difficult backdrop during the third quarter as rising oil prices and bond yields challenged strong earnings and improving business activity. Renewed Middle East hostilities added to inflation concerns, while the Fed's September rate increase reinforced expectations for tighter monetary policy. Equity valuations contracted across developed markets, and rising fuel and mortgage costs pressured U.S. households.

Within equities, U.S. large cap stocks advanced while smaller companies declined, reversing the previous quarter's broader leadership. Large cap value outperformed as investors increasingly favored cash generation and balance-sheet strength over momentum and higher-risk exposures. Energy led sector performance, while software gains contrasted with semiconductor weakness and concerns about artificial intelligence spending. Earnings

estimates continued to rise, but valuation declines overwhelmed that support in smaller companies. Developed international and emerging market (EM) equities were mixed, with substantial variation across countries.

Fixed income markets posted negative returns, with Treasury yields rising sharply across the curve. Core bonds and inflation-protected securities lost ground as higher rates outweighed income. Shorter-duration exposures were better insulated, while high yield bonds and leveraged loans supported results within diversified fixed-income allocations. Listed real estate struggled as higher rates increased financing costs and pressured valuations.

Portfolio review

The Voya Strategic Allocation Passive Portfolios posted mixed absolute returns and negative relative returns.

Asset allocation was additive to relative performance across all portfolios. Overweights to equities and underweights to bonds were the primary contributors, as resilient economic growth and solid corporate earnings supported equity markets, while persistent inflation and rising interest rates pushed yields higher and weighed on fixed income returns. Underweights to U.S. small cap equities also added value, as smaller companies lagged amid greater sensitivity to rising interest rates, while an overweight to short-term bonds benefited supported by their relatively short durations. An overweight to emerging market equities was a modest detractor as semiconductor stocks, which are a dominant industry in Taiwan and South Korea, pulled back after several months of exceptionally strong performance.

The Voya Strategic Allocation Passive Portfolios are comprised of passive index funds. The funds may not perfectly track the performance of the underlying asset class benchmarks. During the quarter, index funds' return differences detracted from performance.

Outlook

Growth remains resilient, but capital has become more expensive. AI infrastructure, energy security, defense spending, and reshoring support investment, while stronger nominal growth, fiscal concerns, and sticky inflation are pressuring yields higher. U.S. activity remains supported by resilient consumption and a low-hire, low-fire labor market, though constrained labor supply complicates the inflation outlook. Moderating shelter costs and fading tariff effects should help ease inflationary pressures. Supply chain relocation creates opportunities, while geopolitical, trade, and energy risks leave less margin for error.

Within equities, we remain modestly overweight and favor the United States, where strong earnings support our constructive view despite narrow market participation. Broader profit growth would make the advance more durable, but higher yields and demanding valuations raise the bar for returns. We favor high-quality large cap businesses with durable cash flows and the ability to self-fund investment. Markets are pricing an optimistic AI outcome in which revenues scale fast enough to justify elevated capital expenditures, preserve margins, and keep the buildout funded. We think that is plausible, but worth diversifying around. Weaker earnings revisions or deteriorating AI spending would warrant greater caution.

Outside the U.S., distinct earnings drivers matter more than cheaper valuations alone. We remain neutral on developed international equities, with a preference for Japan given governance reforms, improving capital allocation, and focus on shareholder returns. Europe offers selective defense, infrastructure, and financial opportunities, tempered by energy sensitivity and fiscal risks. Our modest EM overweight favors Asia's semiconductor and hardware leadership, alongside India's domestic growth and supply-chain relocation. Concentration and overlap with U.S. AI exposure increase the importance of manager selection. China's manufacturing and export strength remain clear positives, but weak domestic demand limits the case for a broad recovery.

In fixed income, higher yields restore meaningful income and diversification potential, but duration is not an all-weather hedge. We favor intermediate-duration U.S. core bonds, including Treasuries, agencies, and high-quality securitized and investment grade credit. These provide income and flexibility if growth weakens without excessive long-end exposure. Tight spreads favor quality over lower-rated credit, while currency volatility, fiscal uncertainty, and a firm dollar reinforce caution on non-U.S. bonds.

The **All Equity Benchmark – 98.5% / 1.5% Cash** - Returns are benchmarked to a customized blend of 98.5% MSCI ACWI IMI/1.5% Bloomberg US T-Bill 1-3 Month., rebalanced on a quarterly basis, which does not incur management fees, transaction costs, or other expenses associated with a composite portfolio. The **MSCI ACWI Investable Market Index (IMI)** captures large, mid and small cap representation across 23 Developed Markets and 24 Emerging Markets countries. The **S&P Target Risk Aggressive Index** is designed to measure the performance of aggressive stock-bond allocations to equities, seeking to maximize opportunities for long-term capital accumulation. It may include small allocations to fixed income to enhance portfolio efficiency. The **S&P Target Risk Balanced Index** is designed to measure the performance of equity allocations, while seeking to provide limited fixed income exposure to diversify risk. The **S&P Target Risk Moderate Index** is designed to measure the performance of moderate stock-bond allocations to fixed income while seeking to increase opportunities for higher returns through equities. Index returns do not reflect fees, brokerage commissions, taxes or other expenses of investing. **Investors cannot invest directly in an index.** The index is a product of S&P Dow Jones Indices LLC, a division of S&P Global, or its affiliates ("SPDJI"), and has been licensed for use by Voya. Standard & Poor's® and S&P® are registered trademarks of Standard & Poor's Financial Services LLC, a division of S&P Global ("S&P"); Dow Jones® is a registered trademark of Dow Jones Trademark Holdings LLC ("Dow Jones"). Voya or its products or services are not sponsored, endorsed, sold or promoted by SPDJI, Dow Jones, S&P or their respective affiliates, and none of such parties make any representation regarding the advisability of investing in such product(s) nor do they have any liability for any errors, omissions, or interruptions of the index.

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An investment in the model is not a bank deposit and is not insured by the Federal Deposit Insurance Corporation, the Federal Reserve Board or any other government agency.

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