

Voya Multi-Asset Perspectives

Economy Primed to Accelerate in 2021; Markets Need Laggards to Lead

Historically weak, choppy economic data and unsettling, pandemic related headlines seem incongruent with the returns witnessed in capital markets throughout 2020. December wrapped up the year in a similar fashion. Labor markets cooled, manufacturing and services activity slowed (Figure 1) and consumer sentiment dropped. At the same time, COVID-19 infections in the United States and elsewhere reached all-time highs, regional hospital systems are again under stress and a more virulent strain of the coronavirus has surfaced in Europe. Yet, risk assets have pushed higher on investor confidence that the future will be better than the present. Compared to earlier in the recovery, cyclical segments of the market are now leading the way. Non-U.S. assets generally are outperforming U.S. and smaller caps have done better than large caps; over the quarter, energy and financials have been the best performing U.S. sectors.

The commencement of vaccine distribution and the passage of another coronavirus relief bill have driven gains in lagging areas of the stock market. One study estimates that vaccinating people

over the age of 70 should reduce COVID-19 fatality risk by ~80%.¹ Protecting the most vulnerable should allow authorities to relax restrictions and permit more mobility (Figure 2), which would increase activity in the most depressed areas of the economy. This won't happen immediately, however; more than 18 million confirmed cases in the U.S. (~5.6% of the population), high daily new-case counts (albeit declining) and winter weather are likely to keep most people at home for the majority of 1Q21. Thus, the latest fiscal package comes at the right time and should help fill some of the private side output gap.

Four and a half years after the Brexit referendum, a deal has been reached on Britain's departure from the European Union. Had the UK left without a deal, the result would have been a disastrously disordered separation. The agreement removes a huge uncertainty overhanging the UK and puts its economy and markets in a better position to heal.

Tactical Indicators



Economic Growth (Improving)

U.S. GDP growth is tracking at 5.6% for 4Q20, but expected to slow in 1Q21



Fundamentals (Improving)

S&P 500 3Q20 corporate profits declined by 6% y/y; revisions are expected to remain high. Net profit margins ex-financials are now back to pre-COVID levels and expected to rise in 2021



Valuations (Neutral)

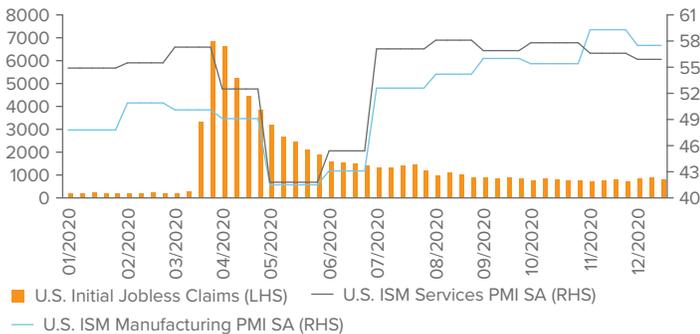
By most historical measures, stocks are expensive. Gravitational pull from low rates keeps the equity risk premium wide



Sentiment (Negative)

Market sentiment has become stretched

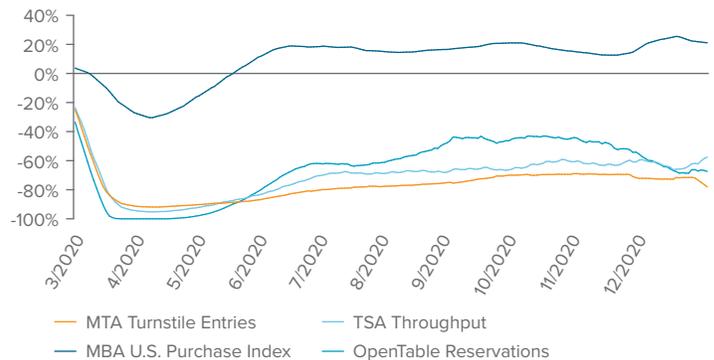
Figure 1. U.S. labor markets have softened, and manufacturing and services activity have slowed



Source: Bloomberg, Voya Investment Management, as of December 25, 2020.

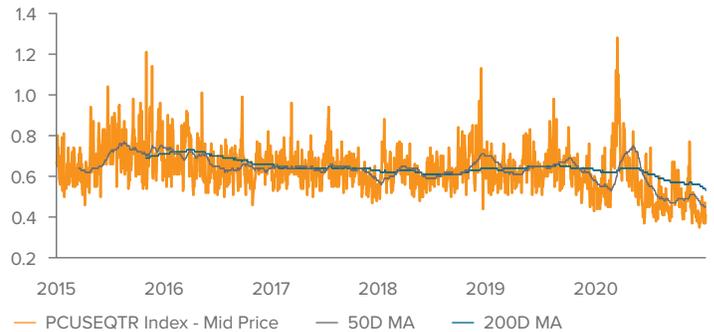
¹Study based on Israeli population statistics: <https://www.ariehkovler.com/2020/12/a-little-vaccine-goes-a-long-way/>
Efficacy rate based on Pfizer-BioNTech's vaccine efficacy rate in FDA trials.

Figure 2. New coronavirus related restrictions are again impeding mobility



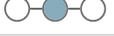
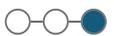
Source: Bloomberg, Voya Investment Management, as of December 30, 2020.

Figure 3. CBOE put/call ratio shows option market positioning is stretched relative to history



Source: Bloomberg, Voya Investment Management, as of December 24, 2020.

Portfolio Positioning

Equities	
U.S. Large Cap	 Scale brings competitive advantages to large caps; extraordinarily stimulative U.S. policy should further tighten the equity risk premium
U.S. Mid Cap	 Larger companies have more compelling risk/return characteristics in the short and medium term
U.S. Small Cap	 Small caps tend to lead when the economy is at the beginning of an economic recovery, which we saw unfolding in 3Q20
International	 Deceleration of new COVID cases in Europe and aggressive government intervention through monetary and fiscal policy in both the Eurozone and Japan will help offset economic drags related to the virus and still-challenged fundamental economic backdrop
Emerging Markets	 We expect faster economic growth and a weaker U.S. dollar to help EM equities. Emerging Asia has a better outlook as those countries have had success combatting COVID-19
REITs	
REITs	 Big divergences among REIT sectors, but the underlying trend for commercial real estate is a concern
Fixed Income	
U.S. Core	 We maintain a neutral duration posture and favor quality investment grade bonds, given yield pickup over sovereign bonds and limited downside risk due to Fed backing
Inflation (TIPS)	 Deflationary pressures may persist for several years
Non-Investment Grade	 Government funding programs combined with state re-openings should tighten spreads further; the default profile may be a near-term headwind, but policy support makes the asset class attractive
International	 Low absolute and relative yields lead us to favor U.S. bonds

Underweight  Neutral  Overweight 

Investment Outlook

With two COVID-19 vaccines approved for use in the U.S. and a new round of fiscal stimulus on the verge of being deployed, there is a clear bridge (vaccine) to post-COVID normalcy and abutments (stimulus) that should serve to reinforce the recovery and absorb unexpected jolts along with way. Highly accommodative monetary policy is likely to be prolonged and act as an additional safety feature to ensure full-employment output is reached without a major accident. The Federal Reserve’s new flexible inflation targeting framework should hold short-term rates near their effective lower bound until there is sustained progress toward their 2% inflation goal. Analogous developments taking shape in various forms across the world, should help reignite global growth to above-trend levels in 2021, breathe new life into struggling sectors and accelerate the rotation into cyclical assets already underway.

Equity markets look overbought to us, based on certain sentiment indicators, including the CBOE put/call ratio (Figure 3). However, we think the improving medium-term fundamental economic backdrop outweighs any near-term technical weakness. Estimates of U.S. corporate earnings growth for 2021 appear to us to substantially undershoot, particularly in the back half of the year, when we anticipate pent up demand will be unleashed as consumer spending speeds up and ailing services sectors are restored to health. We recognize most valuation measures that

compare broad market stock prices to earnings, cash flows or sales look historically expensive. Yet, when adjusted for interest rates, we think stocks have more room to run. We think the Fed will keep the bond market tame in the near term, which will hold earnings multiples afloat while better future financial reports boost numbers in the denominator in 2H21. Another reason we like equities better than bonds is our view that in the next phase of the business cycle, cyclically geared assets will carry more of the load. The hand-off that began at the end of October is likely to continue; we remain overweight to U.S. small cap and emerging market equities, which stand to benefit from economic progression.

The same macro level view guides our positioning in fixed income. The lagged impact of fiscal and monetary policy, combined with a better controlled global health situation, should press corporate credit and securitized spreads tighter. We think accelerating growth will steepen the yield curve, so we are underweight duration. But we do not expect long-end yields will shoot so high, so fast, as to meaningfully tighten financial conditions. We continue to prefer U.S. fixed income over non-U.S. developed market bonds given their yield advantage. Our view is that the U.S. dollar will continue to weaken makes foreign bonds more attractive, especially EM debt. Nonetheless, we still think EM equities offer better risk-adjusted return potential than fixed income.



Paul Zemsky, CFA
Chief Investment Officer,
Multi-Asset Strategies



Barbara Reinhard, CFA
Head of Asset Allocation,
Multi-Asset Strategies

Multi-Asset Strategies and Solutions Team

Voya Investment Management's Multi-Asset Strategies and Solutions (MASS) team, led by Chief Investment Officer Paul Zemsky, 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 their 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/or reduce portfolio risk.

Past performance does not guarantee future results.

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.

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.

Voya Investment Management Co. LLC ("Voya") is exempt from the requirement to hold an Australian financial services license under the Corporations Act 2001 (Cth) ("Act") in respect of the financial services it provides in Australia. Voya is regulated by the SEC under U.S. laws, which differ from Australian laws.

The distribution in the United Kingdom of this Market Insight and any other marketing materials relating to portfolio management services of the investment vehicle is being addressed to, or directed at, only the following persons: (i) persons having professional experience in matters relating to investments, who are "Investment Professionals" as defined in Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Financial Promotion Order"); (ii) persons falling within any of the categories of persons described in Article 49 ("High net worth companies, unincorporated associations etc.") of the Financial Promotion Order; and (iii) any other person to whom it may otherwise lawfully be distributed in accordance with the Financial Promotion Order. The investment opportunities described in this Market Insight are available only to such persons; persons of any other description in the United Kingdom should not act or rely on the information in this Market Insight.

The Capital Markets Authority and all other Regulatory Bodies in Kuwait assume no responsibility whatsoever for the contents of this Market Insight and do not approve the contents thereof or verify their validity and accuracy. The Capital Markets Authority and all other Regulatory Bodies in Kuwait assume no responsibility whatsoever for any damages that may result from relying on the contents of this Market Insight either wholly or partially. It is recommended to seek the advice of an Investment Advisor.

This Market Insight and the information contained herein does not constitute and is not intended to constitute an offer to sell or the solicitation of any offer to buy securities and accordingly should not be construed as such. The investment vehicle and any other products or services referenced in this Market Insight may not be licensed in all jurisdictions, and unless otherwise indicated, no regulator or government authority has reviewed this document or the merits of the products and services referenced herein. Nor does any regulator or government authority take any responsibility for the accuracy of the statements and information contained in this document or have any liability to any person for damage or loss resulting from reliance on any statement or information contained herein. This Market Insight and the information contained herein has been made available in accordance with the restrictions and/or limitations implemented by any applicable laws and regulations. This Market Insight is directed at and intended for institutional investors (as such term is defined in each jurisdiction in which the investment vehicle is marketed). This Market Insight is provided on a confidential basis for informational purposes only and may not be reproduced in any form. Before acting on any information in this Market Insight, prospective investors should inform themselves of and observe all applicable laws, rules and regulations of any relevant jurisdictions and obtain independent advice if required. This Market Insight is for the use of the named addressee only and should not be given, forwarded or shown to any other person (other than employees, agents or consultants in connection with the addressee's consideration thereof).

THE CENTRAL BANK OF BAHRAIN, THE BAHRAIN BOURSE AND THE MINISTRY OF INDUSTRY, COMMERCE AND TOURISM OF THE KINGDOM OF BAHRAIN TAKE NO RESPONSIBILITY FOR THE ACCURACY OF THE STATEMENTS AND INFORMATION CONTAINED IN THIS MARKET INSIGHT OR THE PERFORMANCE OF THE PRODUCT, NOR SHALL THEY HAVE ANY LIABILITY TO ANY PERSON, INVESTOR OR OTHERWISE FOR ANY LOSS OR DAMAGE RESULTING FROM RELIANCE ON ANY STATEMENTS OR INFORMATION CONTAINED HEREIN. THIS MARKET INSIGHT IS ONLY INTENDED FOR ACCREDITED INVESTORS AS DEFINED BY THE CENTRAL BANK OF BAHRAIN. WE HAVE NOT MADE AND WILL NOT MAKE ANY INVITATION TO THE PUBLIC IN THE KINGDOM OF BAHRAIN TO SUBSCRIBE TO THE INTERESTS IN THE FUND OR PURCHASE THE PRODUCT AND SERVICES AND THIS MARKET INSIGHT WILL NOT BE ISSUED, PASSED TO, OR MADE AVAILABLE TO THE PUBLIC GENERALLY. THE CENTRAL BANK OF BAHRAIN HAS NOT REVIEWED, NOR HAS IT APPROVED, THIS MARKET INSIGHT OR THE MARKETING THEREOF IN THE KINGDOM OF BAHRAIN. THE CENTRAL BANK OF BAHRAIN IS NOT RESPONSIBLE FOR THE PERFORMANCE OF THE PRODUCT.

This document or communication is being provided to you on the basis of your representation that you are a wholesale client (within the meaning of section 761G of the Act), and must not be provided to any other person without the written consent of Voya, which may be withheld in its absolute discretion.

©2020 Voya Investments Distributor, LLC • 230 Park Ave, New York, NY 10169 • All rights reserved.

CMMC-MAP-1120 123120 • IM1463360 • WLT250006745