

Voya Multi-Asset Perspectives

Markets Discount Resurgence in COVID Cases, Focus on Vaccines

A scary end to October has been followed by an enthusiastic risk-asset rally in November, as most major equity markets have delivered double-digit returns month-to-date. A build-up of nerve-wracking news and highly consequential events culminated in an apparent avoidance of worst-case scenarios envisioned just a few weeks ago. Data showing that we are amidst a second wave of COVID-19 infections has been difficult for many to stomach. The daily number of confirmed COVID-19 cases in the United States has increased to more than 150,000, almost five times the April peak and more than double the summer peak. The reproductive rate, a key measure of how fast the virus is growing, is above 1.0 for almost every state in the country,* indicating a quickening spread. COVID related hospitalizations continue to set new highs, daily deaths are back near summer highs (less than half of April peaks) and leading experts warn that the situation will likely get worse before it gets better. Only seven states, however, are estimated to have reached ICU capacity of more than 70%; only Georgia is at slightly more than 80%.[†]

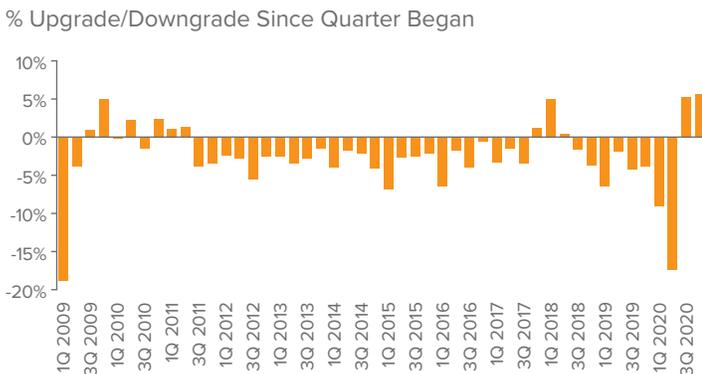
After making hard fought, incremental improvements throughout the summer, the prospect of regressing to lockdowns was more than most could handle. Fortunately, it has been announced over consecutive weeks, that three separate vaccines have proven highly effective in Phase III trials and are ready for regulatory approval, manufacturing and distribution.

Another market overhang has receded this month, with what most believe to be Joe Biden's conclusive victory over President Trump, and, what appears likely to be a Republican controlled Senate. A divided government reduces the probability of extreme outcomes some feared could come with a "blue wave," and could bring back a more conventional political environment, which could reduce the political uncertainties that investors generally dislike. Here too, the story is not over. President Trump has resolved to fight on and, although betting markets and polls show the GOP has good odds to maintain control in the Georgia runoff election, results still could go the other way.

Tactical Indicators

- 
Economic Growth (Neutral)
 3Q20 U.S. real GDP grew by 33.1% q/q SAAR; output still 3.5% below 4Q19 level
- 
Fundamentals (Improving)
 S&P 500 3Q20 earnings revisions have increased by the most since 2009 (Figure 1), but corporate profits are poised to decline by more than 5% y/y
- 
Valuations (Neutral)
 By most measures, stocks are expensive relative to history, but with substantial policy stimulus and liquidity the support for equities is meaningful
- 
Sentiment (neutral)
 Voya's Market Sentiment Indicator sits in neutral territory

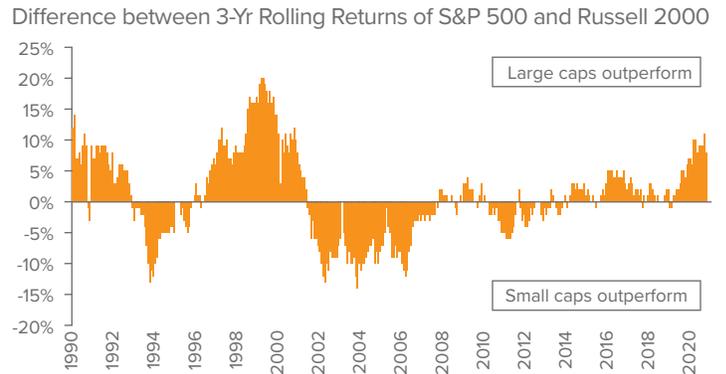
Figure 1. S&P 500 3Q20 earnings revisions have increased by the most since 2009



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

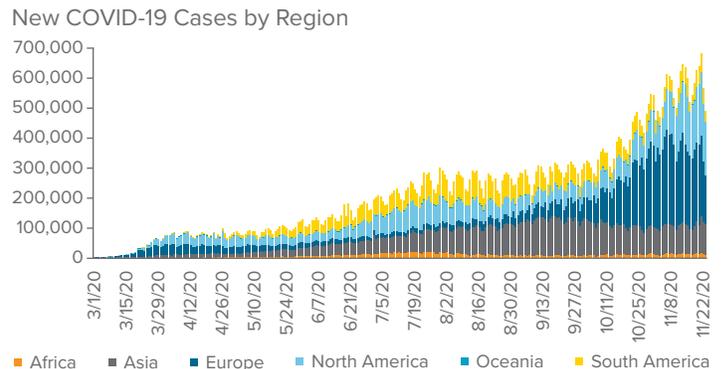
*Source: Centers for Disease Control and Prevention, as of 11/16/20
[†]Ibid.

Figure 2. Small cap stocks have lagged large caps by the most since the tech bubble



Source: Morningstar, Voya Investment Management, as of November 23, 2020.

Figure 3. New COVID cases are decelerating in Europe and accelerating in the U.S.



Source: Our World In Data, Voya Investment Management, as of November 23, 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		Emerging Asia has a better growth outlook as those countries have had better success combatting COVID-19. We expect the U.S. dollar to continue to show weakness, which usually helps EM equities.
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

A once in a generation exogenous shock caused an unusual type of recession that compelled policy makers and the healthcare community to implement extraordinary measures in record-breaking time. This has led to a remarkably quick bottoming in economic growth and a bounce off the lows, which has only been outdone by the incredibly quick snap-back in financial markets that has put global stocks up roughly 10% on the year.¹ The market’s exceptional ability to look forward has been on full display during this crisis. Throughout untold amounts of pain and suffering, investors have been focused on forecasting when the pandemic will be behind us and what the world looks like on the other end. Optimistic early expectations for finding effective vaccines have been realized and provide added credibility to forecasters’ ability to predict when normality resumes. Despite the recent coronavirus surge and probable upcoming socially isolating, winter hunkering required, we think stocks can continue to hold their own against bonds for several reasons. First, we are hopeful that the balance of scientific data going forward will be positive, but we are confident that there will be an end; the closer we get, the better view of it we will have. Second, should we be wrong about the first point, policymakers have repeatedly proven their ability and willingness to act. This is being challenged, however, by Treasury Secretary Mnuchin’s recent decision not to reauthorize certain Federal Reserve emergency credit facilities.

Stocks would certainly prefer that fiscal authorities are well-aligned with the Fed, but this backstop funding may not be needed. Lending spreads have fallen substantially since the programs were enacted and liquidity is ample in all markets. The existence of the capital cushion would provide an added layer of confidence and support in the event of severe financial distress, but we think this is unlikely; and with the incoming Biden administration, Mnuchin is not long for his role, so the next stimulus package could reinstate

or remake something similar in a few months. The last reason we are overweight stocks is that bond yields are incredibly low, and we believe they will stay in a narrow range between 0.50–1.0% for some time to come. In the absence of a fundamental sell-off, this should further attract investors to stocks.

However, the types of stocks investors are drawn to has begun to change and we think this shift has legs. Over the last month we have added to portfolios’ U.S. small cap and international developed equity positions, funded by a lessening of our previously big overweight to U.S. large cap equity. Small caps have lagged large caps by the most since the tech bubble (Figure 2). With a more stable global economic picture on the horizon and near extreme valuations in many of the adored big tech growth stocks, small caps look poised to return to life, in our opinion.

The rationale for our shift toward international equities is underpinned by a similar premise. Attractive relative valuations combined with a deceleration of new COVID cases in Europe versus rising cases in the U.S. (Figure 3) and our expectation for a weaker U.S. dollar in the near term should help improve economic fundamentals. We already see signs of this, with German and Eurozone services and manufacturing PMIs both well above 50. The new orders component of the surveys has experienced a marked increase, primarily driven by domestic demand. Labor market conditions also continue to improve, helping to drive a notable increase in confidence. The other major EAFE component, Japan, has been successful in controlling COVID and executed a seamless transition of power from Shinzo Abe to Yoshihide Suga in September, which underscores Japan’s political stability. Moreover, the yen is historically weak, and we expect that should help bolster exports going forward. There is also no cheaper major regional equity market than Japan.

¹ Global stock returns refer to the total return on the MSCI ACWI Index. Source: Bloomberg, as of 11/24/20.



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.

CMC-MAP-1120 113020 • IM1430675 • WLT250006392