June 2019

Voya Multi-Asset Perspectives

Geopolitical Concerns Rise, Stocks Fall

Global equities were down across the board for the month. No capitalization segment was spared; neither growth nor value had a clear advantage. Cyclical assets led the way lower; emerging markets equities have been hit particularly hard by the United States reigniting trade concerns. The latest round of trade threats would impose tariffs on another $325 billion of Chinese goods; should they go into effect, they likely will hit consumers much harder than past tariffs. We do not see any resolution on trade prior to the G20 meeting this month at the earliest.

As we head into summer, the geopolitical climate is unsettled. On top of China trade concerns, investors are beginning to worry that tariffs may be levied on European imports. With UK Prime Minister Teresa May stepping down, Brexit uncertainty is as high as ever. What's more, the U.S. has ratcheted up sanctions on Iran's crude oil exports. There is now a risk that trade and Middle East tensions become intertwined and exacerbate volatility in energy-sensitive sectors of the capital markets. The longer these issues drag on, the greater the risk of a decline in capital expenditures, a drawdown of inventories and ultimately less hiring.

The build-up of troubling news and data has caused investors to seek safety in fixed income, with the Bloomberg Barclays (BB) U.S. Treasury 20+ Year and BB U.S. Aggregate Bond indices returning 6.70% and 1.78% respectively, in May. Given all the high quality asset buying, the whole U.S. Treasury yield curve (except for 30 year bonds) is yielding less than the fed funds target rate of 2.38%. Curve flatness reflects in large measure the bond market's expectations for slowing growth. Interestingly, confidence measures remain strong, which could mean that the current lull is just the economy catching its breath after a fast move to the upside in the first four months of the year. The key for the future is higher productivity. With the labor force shrinking but confidence high, the final determinant will be capital formation.

Tactical Indicators

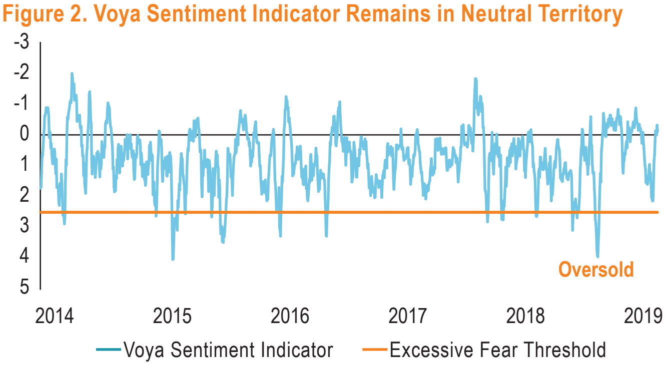
Economic Growth (neutral):
The U.S. bond market is pricing in slow growth (Figure 1)

Fundamentals (improving):
The U.S. drives improvement in global earnings revisions

Valuations (positive):
Global stock valuations remain near long-term averages

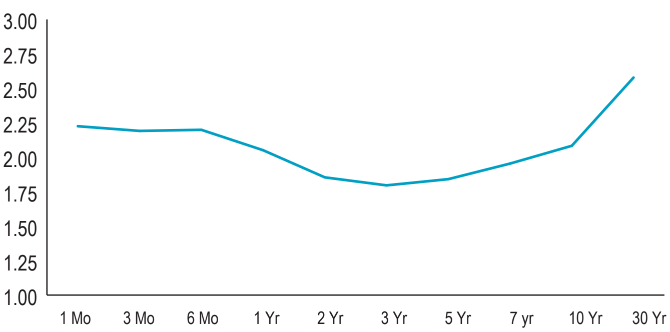
Sentiment (neutral):
Voya Sentiment Indicator (Figure 2) remains at neutral levels, but longer-term indicators are still neutral.

Figure 2. Voya Sentiment Indicator Remains in Neutral Territory



Source: Bloomberg and Voya Investment Management, data as of 6/14/2019.

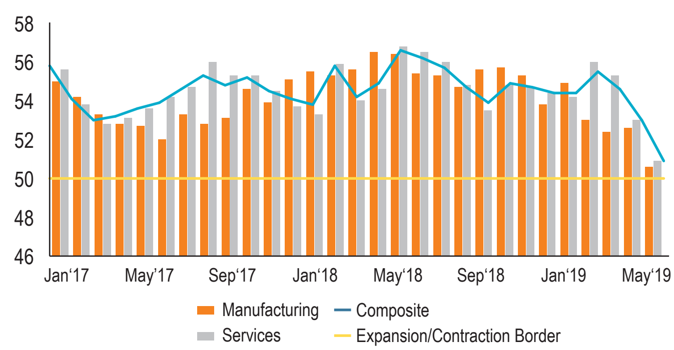
Figure 1. The Bond Market is Signaling a Slowdown through the U.S. Treasury Yield Curve



Source: Wall Street Journal, data as of 6/17/2019, 1:45 PM.

Figure 3. U.S. PMIs Show Slowing Growth

Markit U.S. PMIs



Source: Bloomberg and Voya Investment Management, data as of 5/31/2019.

Portfolio Positioning

Equities	●	
U.S. Large Cap	○○●	Reasonable valuations and earnings yields create relative attractiveness versus fixed income
U.S. Mid Cap	○●○	Late cycle and full valuations offset solid near-term earnings outlook
U.S. Small Cap	●○○	Susceptible to increasing operating costs because of high leverage
International Equities	●○○	Relatively slow growth, volatile political backdrop and concerns over Japan implementing a value added tax
Emerging Market Equities	○○●	With less EM currency volatility and more policy support, we expect the growth outlook to brighten and equity performance to begin converging to DM
REITS	○●○	May act as a buttress due to their yield attractiveness during high levels of volatility
Fixed Income	●	
U.S. Core Fixed Income	○○●	We favor quality investment grade bonds over high yield as downgrade risk of BBBs could weigh on spreads
Non-Investment Grade	●○○	Senior loans are recovering in the wake of a weak 4Q18
International Fixed Income	●○○	Low absolute and relative yields lead us to favor U.S. bonds

Underweight ● Neutral ● Overweight ●

Investment Outlook

Some of the signs of economic strength that formed in the first few months of the year have started to slip. For example, the latest reading from the Markit U.S. Composite PMI, which hit its lowest level since May of 2016 (Figure 3), is consistent with slowing but still positive GDP growth. Both the services and manufacturing components contributed to the decline. In addition, U.S. financial conditions have tightened back to levels last seen in January. The move has been driven by a combination of dollar strength, weaker equity markets and yield curve flatness. In aggregate, our indicators point to weaker U.S. economic growth in Q2. However, we still expect growth for the full year 2019 to be near trend growth of approximately 2.0%.

Global and U.S. earnings revisions are turning up. We look for stabilization of the U.S. dollar, credit spreads and Chinese economic data as signals of improved market internals and sustainable future earnings growth. Much of this rests on the direction of monetary policy. The Federal Reserve is currently on hold but the market is pricing in a 25 basis point cut to the fed funds rate as early as July, depending on economic conditions. We think the market is overestimating the probability of interest rate cuts in 2019 and feel the data are still uncertain about the direction of Fed policy. In our opinion, the unemployment rate does not fully capture resource capacity utilization and this has been reflected in stubbornly low core personal consumption expenditure deflator (core PCE) readings, which is the Fed's preferred measure of inflation.

We continue to believe that although everyone loses in a trade war — tariffs create deadweight losses that reduce income on both sides — China cannot afford to lose the American consumer market, and therefore may prove to be more vulnerable. Thus, in our view, progress toward an agreement in the near term is more likely than not, albeit less likely than it was a month ago. We also see scope for improvement in the European geopolitical backdrop following market unfriendly election outcomes in Italy and given Brexit concerns. Still, we are less optimistic on non-U.S. developed market equities than we are on U.S. equities, and maintain higher than baseline allocations to large-cap U.S. stocks at the expense of EAFE equity.

Past performance does not guarantee future results.

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