Voya Large Cap Growth Strategy

Seeking the Growth Potential and Stability of Large Caps

Strategy overview

Actively managed large cap growth strategy that relies on fundamental research and analysis to identify companies with strong and accelerating business momentum, increasing market acceptance and attractive valuations.

Key takeaways

- The bull market run over the first half of the year took a pause as markets pulled back during the third quarter. The specter of a government shutdown was avoided but that has done little to quell market volatility thus far.
- For the quarter, the Strategy underperformed its benchmark, the Russell 1000 Growth Index (the Index), on net asset value (NAV) basis, primarily due to unfavorable stock selection.
- There remains a great deal of uncertainty ahead regarding the prospect of slowing economic growth and whether inflation has truly been tamed by the unprecedented rate cuts over the past year. It appears that the U.S. Federal Reserve is nearing the end of the rate hike cycle. We are cautiously optimistic that we can achieve the soft-landing scenario.

Portfolio review

U.S. equity markets reversed course during the third quarter, weighed down by fears of interest rates remaining higher for longer. The S&P 500 Index fell by –3.27% for the quarter. Energy and information technology stocks led while utilities and consumer staples lagged. Growth stocks modestly outperformed value stocks during the quarter, and large caps beat small caps.

The U.S. bond market remained choppy during the quarter. The Bloomberg U.S. Aggregate Bond Index lost –3.23%, while a surprisingly resilient U.S. economy pushed the 10-year U.S. Treasury yield from 3.86% at the beginning of the quarter to 4.59% by quarter-end. In July, the Fed raised rates by 25 basis points, bringing the Fed funds rate to a range of 5.25–5.50%. Rates were held steady at the September meeting, and Fed Chair Powell's remarks maintained a hawkish tone as he reiterated the central bank's strong commitment to returning inflation to its 2% target.

For the quarter ended September 30, 2023, the Strategy underperformed the Index on a NAV basis primarily due to unfavorable stock selection. Stock selection in the consumer staples, financials and information technology sectors contributed the most to performance. Unfavorable stock selection in the health care, communication services and consumer discretionary sectors detracted the most.

Key contributors to performance were Apple Inc., Eli Lilly and Co. and Tradeweb Markets, Inc.

An underweight position in Apple Inc. (AAPL) contributed to performance. After a strong first half of the year, AAPL pulled back during the period as Huawei has released a flagship phone and a potential Chinese government iPhone ban could have material near-term impact on sales.

An overweight position to Eli Lilly and Co. (LLY) contributed to performance. The company reported strong earnings during the period and reported particularly strong sales from Mounjaro whose growing market includes both diabetes and obesity.

An overweight position to Tradeweb Markets, Inc. (TW) contributed to performance. The company reported solid earnings during the period, but the larger focus was around management commentary around price increases and increasing volume trends, reporting “mid-double-digit” volume and revenue growth through July.

Key detractors from performance were Alphabet Inc., Las Vegas Sands Corp. and Keysight Technologies Inc.

Not owning a benchmark position in Alphabet Inc. (GOOG) detracted from performance. The company reported a solid quarter during the period, and GOOG is one of the leaders in efforts to grow artificial intelligence. They announced several new products, services and features, including an expanded partnership with NVIDIA to enable innovation by customers and developers.

An overweight position to Las Vegas Sands Corp. (LVS) detracted from performance. The stock faced pressure during the period from fears over a softer China macro backdrop, which could impact lower income customer visitation.

An overweight position to Keysight Technologies Inc. (KEYS) detracted from performance. The company reported earnings that were in-line with consensus, but weak guidance amidst slowing demand, and the company believes orders could be weaker in some markets for the next few quarters.

Current strategy and outlook

The U.S. economy has remained resilient as have corporate earnings, fueling the debate of a hard versus soft landing. We still believe there may be greater volatility to come given uncertainty over Fed rate policy through the end of the year; mixed business sentiment and slowing economic growth; and whether a recession will actually happen, and if so, the duration and depth. The real story has been the resilience of corporate earnings and rise in equity valuations as interest rates begin to normalize. Using price-to-earnings (P/E) ratio as a proxy, valuations for the S&P 500 Index ended 2022 well below 2019 levels. However, despite elevated rates and tightening financial conditions in the first half of the year, valuations have expanded modestly. P/E ratios are still below 2019 levels, and we believe earnings expectations are reasonable, but this could change as we enter 2024 depending on the state of the U.S. economy.

Holdings detail

Companies mentioned in this report – percentage of Strategy investments, as of 09/30/23: Apple Inc. 9.28%, Eli Lilly and Co. 3.61%, Tradeweb Markets, Inc. 1.15%, Alphabet Inc. 3.63%, Las Vegas Sands Corp. 1.11% and Keysight Technologies Inc. 0%; 0% indicates that the security is no longer in the portfolio. Portfolio holdings are subject to daily change.

The **Russell 1000 Growth Index** is an unmanaged Index that measures the performance of the large-cap growth segment of the US equity universe. It includes those Russell 1000 companies with higher price-to-book ratios and higher forecasted directly in an Index. The Index does not reflect fees, brokerage commissions, taxes or other expenses of investing. **Investors cannot invest directly in an Index.**

Past performance is no guarantee of future returns. 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.

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