Commentary | 1Q24

Voya Large Cap Core-Value SMA (Merrill Lynch)

Actively managed portfolio of high-dividend-yield and dividend-growth stocks

Strategy overview

An actively managed large cap value strategy that relies on fundamental research and analysis to capture the benefits of both high-dividend-yield and dividend-growth stocks.

Key takeaways

- Markets are off to a good start to the year, as the underlying fundamental factors of the economy remain strong. Inflation is still above the U.S. Federal Reserve targeted mandate but has fallen sharply from its 2022 highs, and U.S. gross domestic product (GDP) has significantly outpaced that of other developed economies.
- For the quarter, the Merrill Lynch Large Cap Core-Value SMA (the SMA) outperformed the S&P 500 Index (the Index), on a net asset value (NAV) basis.
- Markets have thus far shrugged off any uncertainty brought on by it being an election year, although it remains to be seen if that will continue. Artificial intelligence (AI) continues to be a catalyst for growth, and markets are anticipating rate cuts to begin before year-end, which is all good news for equities.

Portfolio review

U.S. stocks enjoyed a strong first quarter as inflation's downward trend continued and U.S. economic growth beat expectations. The S&P 500 Index reached a new high and advanced by 10.56% on a total return basis during the quarter and the Nasdaq Composite had a price return of 9.11%. The communication services, energy and information technology sectors led, while real estate and utilities lagged. Large-cap stocks outperformed small caps and growth beat value. The Federal Open Market Committee voted to hold interest rates steady for the fifth consecutive time at its March meeting; however, three rate cuts are still expected this year, with the first likely to happen in June.

U.S. bonds slipped during the quarter amid persistently tight credit spreads and a rising U.S. Treasury yield curve. The Bloomberg U.S. Aggregate Bond Index fell –0.78%. The 10-year U.S. Treasury yield rose from 3.95% in January to 4.20% by quarter end on early concerns that lingering high inflation could change the Fed's rate cut plans; however, it remained essentially flat in March following favorable comments from Fed Chair Powell.

For the quarter ended March 31, 2024, the SMA outperformed the Index on a NAV basis due to favorable stock selection. Stock selection in the information technology, consumer discretionary and communication services sectors contributed the most to performance. At the individual stock level, not owning a position in Apple Inc. or Tesla, Inc. and an overweight position in Meta Platforms Inc. were among the SMA's largest contributors for the quarter.

Stock selection within the consumer staples and materials sectors had the largest negative impact on performance. At the individual stock level, an underweight position in NVIDIA Corp., a non-benchmark position in Dropbox, Inc. and an overweight position in Adobe Inc. were among the key detractors for the quarter.

Current strategy and outlook

The U.S. economy remains strong, with positive gains in payrolls and productivity. Consumer spending momentum appears soft but stable. Household net worth has increased significantly since the pandemic, but consumer confidence remains below long-term averages due to the lasting negative impact of higher prices on consumers' psyches. The U.S. labor market remains robust but shows signs of softening. While inflation has fallen to more manageable levels, concerns about overheating persist. Interest rates may remain higher for longer than some participants expect.

The economic soft landing and easier financial conditions, coupled with anticipated rate cuts, should create favorable conditions for U.S. stocks. Although a lot of price appreciation has already taken place and a near-term pullback is possible, there is significant potential for further rally once the Fed starts cutting rates.

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