Commentary | 1Q25

Voya Large Cap Core-Value SMA (Merrill)

Actively Managed Portfolio of High-dividend Yield and Dividend-growth Stocks

Strategy overview

Actively managed large cap value strategy that relies on fundamental research to capture the benefits of high excess capital yield and sustainable dividends.

Key takeaways

- Equities experienced a broad pullback, with large caps holding up better than small caps, while value stocks outpaced growth. Growth sectors saw notable declines, particularly in technology and retail, while defensive sectors and energy provided stability.
- For the quarter ended March 31, 2025, the SMA outperformed the Index on a gross- and net-of-fees basis due to favorable stock selection. Stock selection in the communication services, consumer staples and consumer discretionary sectors contributed the most to performance. Conversely, selection within the information technology, industrials and materials detracted from performance.
- As we move through the remainder of 2025, investors face a complex landscape shaped by geopolitical tensions, shifting trade policies and evolving monetary dynamics. We aim to remain nimble in response to elevated inflation and interest rates, carefully monitoring strategies to align with changing market dynamics.

Market review

In the first quarter of 2025, U.S. equities faced a significant downturn, with the S&P 500 Index falling by –4.27% and the Nasdaq Composite Index declining by –10.42%. This marked the worst performance for the S&P 500 since 3Q22 and for the Nasdaq since 2Q22. The market's decline was driven by a combination of economic growth fears, tariff uncertainties and emerging cracks in the artificial intelligence sector. Big technology, represented by the Magnificent Seven stocks, fell into bear-market territory, down 16% for the quarter. Despite these challenges, several key economic indicators remained strong.

Notably, sector performance was mixed, with defensive sectors like energy and healthcare outperforming the broader market. These sectors benefited from their historical resilience in uncertain economic conditions, providing a buffer against the market's overall volatility. In contrast, the cyclical and technology sectors lagged, reflecting investor concerns over economic growth and the impact of tariff uncertainties. The market's negative sentiment was further worsened by weaker economic data and earnings changes. However, the economy received some support from the Federal Open Market Committee as Chair Powell emphasized that tariffs would only affect inflation temporarily.

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Portfolio review

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At the individual stock level, not owning Tesla Inc. (TSLA), an overweight positions in AT&T Inc. (T), and Arthur J. Gallagher & Co. (AJG) were among the SMA's largest contributors for the quarter.

Not owning Tesla, Inc. (TSLA) contributed to performance as the stock dropped sharply following its disappointing quarterly results along with growing concerns that Musk's involvement in Department of Government Efficiency (DOGE) could be a distraction.

An overweight position in AT&T, Inc. (T) contributed to performance. The stock rose after reporting another strong quarter to end the year, and a positive outlook on future growth driven by a positive outlook for its fiber business.

An overweight position in Arthur J. Gallagher & Co. (AJG) contributed to performance, as the company delivered strong 4Q24 and full-year results. Results were driven by margin expansion in its brokerage segment and higher earnings in the corporate segment. Additionally, AJG is well positioned to benefit from its accretive acquisition strategy, extending beyond the recent AssuredPartners (AP) acquisition.

At the individual stock level, our position in Hewlett Packard Enterprise Co. (HPE), not owning Berkshire Hathaway Inc. Class B (BRK.B) and an overweight position in Broadcom Inc. (AVGO) were among the SMA's largest detractors for the quarter.

Our position in Hewlett Packard Enterprise Co. (HPE) detracted from performance. HPE's poor performance was driven by disappointing 1Q25 earnings linked to margin pressure from AI server product transitions and missteps related to traditional server pricing. Headwinds from uncertainty in tariffs also weighed on the stock.

Not owning Berkshire Hathaway Inc. (BRK.B) was a major detractor this quarter. The company reported record annual profits driven by strong underwriting and strength in the property and casualty insurance segment. The stock also benefitted from a "flight to safety" in a volatile market environment.

An overweight position in Broadcom Inc. (AVGO) detracted from performance. Shares declined due to concerns regarding AI spending growth slowing as well as trade and tariff policy impacts on semiconductor companies.

Outlook

The outlook for U.S. equities in the coming period remains cautious amid a mix of economic and market factors. While the labor market remains strong and inflation pressures have eased, broader economic uncertainty and tariff uncertainties continue to pose significant risks. Policymakers will need to handle these challenges carefully to make sure the economy keeps growing and staying stable.

The Standard and Poor's 500 Index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries. The index includes 500 leading companies and covers approximately 80% of available market capitalization. Index returns do not reflect fees, brokerage commissions, taxes or other expenses of investing. Investors cannot invest directly in an index.

The principal risks are generally those attributable to investing in stocks and related derivative instruments. Holdings are subject to market, issuer and other risks, and their values may fluctuate. Market risk is the risk that securities or other instruments may decline in value due to factors affecting the securities markets or particular industries. Issuer risk is the risk that the value of a security or instrument may decline for reasons specific to the issuer, such as changes in its financial condition.

The Composite performance information represents the investment results of a group of fully discretionary accounts managed with the investment objective of outperforming the benchmark.

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