Commentary | 4Q24

Voya Large Cap Core-Value SMA (Merrill)

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

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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

- In the fourth quarter of 2024, the equity markets experienced mixed returns. Domestic large- and small-cap stocks delivered positive returns, while value indices and international markets saw declines. Cyclical sectors, such as consumer discretionary, financials and technology, outperformed defensive sectors. Growth factors led performance, while value factors declined..
- For the quarter ended December 31, 2024, the SMA outperformed the Index on a gross-of-fees basis due to favorable stock selection. Stock selection in the information technology, industrials, and financials sectors contributed the most from performance.Conversely, selection within the communication services, health care, and utilities detracted from performance.
- The outlook for equities in 2025 is cautiously optimistic as the U.S. economy remains strong and the Trump administration is expected to implement favorable policies in terms of deregulation and taxes. However, risks such as tariffs, inflation and geopolitics may result in volatility.

Market review

U.S. stocks continued their upward trajectory during the fourth quarter following Donald Trump's presidential victory, with the S&P 500 Index rising by 2.41% and the Nasdaq Composite advancing by 6.17%. The consumer discretionary and communication services sectors led, while materials and healthcare lagged. Large cap stocks outperformed small caps, and growth stocks significantly beat value stocks.

The U.S. bond market struggled during the quarter on concerns about sticky inflation and the U.S. Federal Reserve's more conservative rate-cut path. The Bloomberg U.S. Aggregate Bond Index declined by –3.06% and the 10-year U.S. Treasury yield rose by more than 80 basis points (bp), ending the quarter at 4.58%. The Fed cut rates by 25 bp in November and December. However, the central bank now projects just two rate cuts in 2025, reflecting a more cautious stance in response to strong economic data.

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Portfolio review

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At the individual stock level, our overweight positions in Broadcom Inc., Tapestry, Inc. and Salesforce, Inc. were among the SMA's largest contributors for the quarter. An overweight position in Broadcom Inc. (AVGO) contributed to performance this quarter. Fourth-quarter results drove strong performance in December, with a strong year-over-year revenue increase. An overweight position in Tapestry, Inc. (TPR) positively impacted performance. The stock appreciated following the announcement in November of the termination of the merger with Capri Holdings, along with the approval of a $2 billion share repurchase program. An overweight position in Salesforce, Inc. (CRM) contributed to performance. The company reported better than expected revenues and earnings in the period.

Not owning Tesla, Inc., an overweight position in Thermo Fisher Scientific Inc. and not owning Alphabet Inc. were among the SMA's largest distributors for the quarter. Not owning Tesla, Inc. (TSLA) detracted from performance. The stock rose significantly following 3Q24 earnings, driven by strong margins and profitability metrics, despite lower-than-expected revenue. Positive sentiment was further boosted by Tesla's plans for new vehicle launches, projected 20–30% delivery growth in fiscal year 2025, and the unveiling of its Robotaxi product. An overweight position in Thermo Fisher Scientific, Inc. (TMO) detracted from performance. The stock declined following a disappointing earnings report. Additionally, the stock faced pressure after the election, as the incoming Trump administration was seen as potentially harmful to growth in the healthcare sector, with concerns over high China tariffs and reduced National Institutes of Health (NIH) funding. Not holding a position in combined shares of Alphabet, Inc. (GOOG) detracted from performance. The stock benefited from excitement around its quantum computing model, "Willow." Additionally, Waymo announced plans to expand its autonomous taxi service to Miami in 2026. Expectations for continued growth in Alphabet's cloud and YouTube businesses further boosted investor sentiment.

Outlook

After months of noise surrounding the U.S. presidential election, markets have now refocused on macroeconomic data, which offer mixed signals. Key concerns include global geopolitical tensions, especially around tariffs, and deteriorating sentiment tied to mega-cap positioning and broader market weakness. Despite these challenges, U.S. equities should continue to benefit from robust consumer spending, optimism around artificial intelligence and solid corporate earnings. U.S. inflation is projected at 2.5% for 2025, but the new administration's policies could reverse the disinflation trend.

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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