

# Multi Asset Strategies and Solutions

## Strategy overview

These portfolios are only offered as an investment option within variable products and retirement programs.

You should consider the investment objectives, risks, and charges and expenses of the variable product and its underlying fund options; or mutual funds offered through a retirement plan, carefully before investing. The prospectuses / prospectus summaries / information booklets contain this and other information, which can be obtained by contacting your local representative or by calling (800) 992-0180. Please read the information carefully before investing.

## Key takeaways

- Global stocks had a strong first quarter, driven by economic growth and corporate earnings, with U.S. large caps leading the way. Bonds slipped as the yields rose. The U.S. Federal Reserve kept interest rates steady and still projects three rate cuts this year.
- In our view, a resilient domestic economy, solid corporate fundamental factors and looser financial conditions coupled with anticipated rate cuts create favorable conditions for U.S. stocks. We are less sanguine on the prospects for Europe and China.
- The Trusts posted positive absolute and relative returns for the period.

## Market review

**U.S. stocks enjoyed a strong first quarter as economic growth and corporate earnings beat expectations.** Large caps drove the S&P 500 Index to record-setting highs during the period. 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, although three rate cuts are still expected this year, with the first forecasted in June.

**Foreign stocks were positive but trailed the U.S. within developed markets, Euro area and United Kingdom economic growth remained weak but expected monetary easing generally supported stocks.** The Bank of Japan raised interest rates for the first time in 17 years, as the country begins to emerge from a decade long deflationary lull and sees the Nikkei 225 Index to a new high after 35 years. Emerging markets lagged. India performed well, benefitting from U.S. corporations' efforts to move Asian operations out of China. Subsequently, China moved lower during the quarter, but a late rally caused some to wonder if the bottom is in.

**U.S. bonds slipped as the U.S. Treasury yield curve rose, with the 10-year yield increasing to 4.20% by quarter end on early concerns that lingering high inflation could change the Fed's rate cut plans.** High yield (HY) and emerging market debt performed best with modestly positive performance.

## Outlook

**The U.S. economy continues to show resilience.** Despite the effects of Fed tightening, economic growth remains strong, driven by gains in payrolls and productivity. Consumer spending is stable, supported by a significant increase in household net worth. However, consumer confidence remains below average due to the lasting impact of higher prices. While inflation has fallen to more manageable levels, concerns about overheating persist. While core Personal Consumption Expenditure (PCE) inflation has declined for 14 consecutive months, core services prices are still rising. To maintain inflation near the Fed's target, a downshift in growth and loosening of the labor market may be necessary.

This does not imply significant economic weakness, but it may keep rates higher for longer than expected.

**U.S. stocks are supported by strong earnings momentum that could continue throughout the year.** Valuations are justified by the growth and quality of earnings, particularly in mega-cap tech stocks. However, Voya IM expects the rally to broaden, with value-oriented and smaller cap segments taking the lead. The economic soft landing and anticipated rate cuts create favorable conditions for U.S. stocks, despite potential near-term pullbacks.

**In Europe, the 4Q23 earnings season was disappointing as profits declined.** The macroeconomic situation is mixed, affected by geopolitical conflicts and a manufacturing downturn in Germany. European companies face greater exposure to a weak China, contributing to an underweight stance. The Bank of Japan's recent interest rate hike and the end of yield curve control signaled confidence in sustained economic growth. The necessary inflation, strong earnings growth and ongoing corporate reforms suggest that Japanese equities may continue to rally.

**Investor skepticism over China's slowing economic growth, geopolitical risks,** governance uncertainties and financial system burdened with bad real estate debt caused a deep decline in stocks. Although a booming auto industry and advancements in industrial technologies are positives, the outlook for China remains highly uncertain and a preference towards U.S. markets remains.

**In the bond market, global yields have drifted higher, creating a more attractive entry point.** An up-in-quality overweight to credit is favored, with the U.S. macroeconomic backdrop supporting investment-grade (IG) corporates. Even if spreads widen later this year, Voya IM thinks the move will be limited and carry will keep total returns positive.

## Positioning

**At the beginning of the period, Trusts held modest tactical equity underweights and fixed income overweights relative to their strategic allocation benchmarks.** On average across the Trusts, sub-asset class allocations were overweight to U.S. large cap equities, duration and in near-dated vintages, treasury inflation-protected securities (TIPS). Trusts' underweights included international developed equities, emerging market (EM) equities and HY.

## Disclaimer

**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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**As part of its annual review toward the end of February, the Trusts enacted their glide downs,** leading to lower equity weights in the 2050-2025 vintages. At the same time, the Trusts' strategic asset allocations were reset, with all tactical positions at the beginning of the period being subsumed into the revised strategic asset allocation, thereby becoming longer-term views.

**Portfolios continue to favor U.S. assets and maintain modestly defensive posture overall with a preference for U.S. large cap equities and core IG fixed income.**

## Performance

**The Voya Target Solution Trusts' primary performance objective is to outperform its strategic allocation composite benchmark** over the long-term through tactical asset allocation, i.e., deviating from the composite benchmark over the short and medium-term and active manager selection. The benchmark return is the weighted average return of indices that represent asset classes included in the strategic allocation benchmark. Index returns are gross of all fees. The Trusts are generally rebalanced monthly and the strategic asset allocations are updated annually to reflect changes to our capital market assumptions. In the first quarter of 2024, Trusts' relative performance exceeded their strategic allocation benchmarks. Tactical asset allocation detracted while manager selection contributed.

**Tactical asset allocation had a negative impact on performance during the period.** Trusts' tactical positions in long duration U.S. treasuries were the main detractors, as interest rates drifted higher during the period. The primary contributors during the quarter were overweights to U.S. large cap equities and underweights in EM equities and HY bonds. U.S. stocks staged an impressive run as economic growth and earnings came in better than expected, helping large companies outperform smaller and foreign equities again. Strong growth in the U.S. and bond market pricing in higher interest rates for longer helped strengthen the U.S. dollar during the period, which weighed on EM stocks.

**Underlying managers' relative results were positive across the Trusts.** Strategies that contributed most to excess returns in the quarter were MFS Growth Equity Trust, Voya Core Plus Fixed Income Trust and Voya VACS Series EME. The biggest detractors in the quarter were Polaris Capital International Value Collective Fund, Voya Small Cap Core Equity Fund CIT and Voya Global Insights Trust Fund.

