Voya Target Retirement Trust Series

The Target Date Choice to Help Keep Retirement Goals on Track

Strategy overview

This suite of Target Date Collective Trusts diversifies across asset classes and managers, and automatically adjusts the portfolio over time to help participants reach their retirement goals.

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 fundamentals, 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 returns, and modestly outperformed their strategic composite benchmarks overall on a net asset value (NAV) basis.

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 United States. 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 county begins to emerge from a decade long deflationary lull and sees the Nikkei 225 Index to a new high after 35 years. Emerging markets (EM) 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 EM 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 technology stocks. However, we expect 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, we think 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, TIPS. Trusts' underweights included international developed equites, EM equities and HY.

As part of its annual review in 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.

Trusts continue to favor U.S. assets and maintain a modestly defensive posture overall with a preference for U.S. large cap equities and core IG FI.

Performance

The Voya Target Retirement 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. Trusts posted positive absolute returns and modestly outperformed their strategic composite benchmarks overall on a NAV basis. 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 emerging market stocks.

Underlying managers' relative results were positive across the Trusts. Strategies that contributed most to excess returns in the quarter were Voya Core Plus Fixed Income, Voya VACS Series EME and Voya Securitized Credit. The biggest detractors in the quarter were Polaris Capital International Value, Brandywine U.S. and Global Fixed Income.

Principal Risks: There is no guarantee that any investment option will achieve its stated objective. Principal value fluctuates and there is no guarantee of value at any time, including the target date. The target date is the approximate date when investors plan to start withdrawing their money. When their target date is achieved they may have more or less than the original amount invested. For each target-date portfolio, until the day prior to its target date, the Trust will seek to provide total return consistent with an asset allocation targeted at retirement in approximately each Trust's designated target year. On the target date, the Trust's investment objective will be to seek to provide a combination of total return and stability of principal consistent with an asset allocation targeted to retirement.

Stocks are more volatile than bonds, and trusts with a higher concentration of stocks are more likely to experience greater fluctuations in value than portfolios with a higher concentration in bonds. Foreign stocks and small and midcap stocks may be more volatile than large cap stocks. Investing in bonds also entails credit risk and interest rate risk. Generally, investors with longer timeframes can consider assuming more risk in their investment portfolios. The Voya Target Solution Trusts are actively managed and the asset allocation adjusted over time. The trusts may merge with or change to other trusts over time. Refer to the prospectus for more information about the specific risks of investing in the various assets classes included in the Voya Target Solution Trusts.

As with any portfolio, you could lose money on your investment in the Voya Target Solution Trust. Although asset allocation seeks to optimize returns given various levels of risk tolerance, you still may lose money and experience volatility. Market and asset class performance may differ in the future from historical performance and the assumptions used to form the asset allocations for the Voya Target Solution Trust. There is risk that you could achieve better returns in an underlying portfolio or other portfolios representing a single asset class than in the Voya Target Solution Trust.

Important factors to consider when planning for retirement include your expected expenses, sources of income and available assets. Before investing in the Voya Target Solution Trust, weigh your objectives, time horizon and risk tolerance. The Voya Target Solutions Trust invests in many underlying portfolios, which are exposed to the risks of different areas of the market. The higher a portfolio's allocation to stocks the greater the portfolio's overall risk. Diversification cannot assure a profit or protect against loss in a declining market.

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The opinions, views and information expressed in this commentary regarding holdings are subject to change without notice. The information provided regarding holdings is not a recommendation to buy or sell any security. Portfolio holdings are fluid and are subject to daily change based on market conditions and other factors.

The Fund discussed may be available to you as part of your employer sponsored retirement plan. There may be additional plan level fees resulting in personal performance to vary from stated performance. Please call your benefits office for more information.

Variable annuities and group annuities are long-term investments designed for retirement purposes. If withdrawals are taken prior to age 59½, an IRS 10% premature distribution penalty tax may apply. Money taken from the annuity will be taxed as ordinary income in the year the money is distributed. An annuity does not provide any additional tax deferral benefit, as tax deferral is provided by the plan. Annuities may be subject to additional fees and expenses to which other tax-qualified funding vehicles may not be subject. However, an annuity does provide other features and benefits, such as lifetime income payments and death benefits, which may be valuable to you.

Variable investments, of any kind, are not guaranteed and are subject to investment risk including the possible loss of principal. The investment return and principal value of the security will fluctuate so that when redeemed, it may be worth more or less than the original investment. In addition, there is no guarantee that any variable investment option will meet its stated objective. All guarantees are based on the financial strength and claims paying ability of the issuing insurance company, who is solely responsible for all obligations under its policies.

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