# Voya Multi-Asset Perspectives

## Risk-Assets Reprice in Crowded Flight to Safety

As SARS-CoV-2, better known as the coronavirus, has spread outside China, much of the world has struggled to comprehend what is unfolding. Until mid-February, the contagion was largely confined to China; but Italy, Iran and Spain have since witnessed dramatic spikes in the number of infections. The number of countries with at least one infection also has skyrocketed. The Center for Disease Control declared the outbreak a global pandemic and, as of March 17, had confirmed nearly 5,900 cases in the United States. Most of the cases have appeared in California, New York and Washington, with most deaths so far in the latter.

The path of the virus and countries' ability to contain it are still unclear. The data suggest that infections will rise substantially in the United States before we see a plateau and decline. This reality and the potential for very bad outcomes is causing panic to grip the markets. Making matters worse, on March 7 Saudi Arabia removed its oil price controls, sending the price of crude plummeting. Wall Street's "fear gauge," the VIX Volatility index (Figure 1), has spiked to levels last seen in the depths of the financial crisis.

The downtrend of new infections in China and Korea is encouraging, as stringent quarantines and other measures have begun to take effect. While these countries are not out of the woods yet, their experience provides a playbook for others to combat the virus. Italy's heartbreaking experience — forced to ration limited healthcare resources — shows that slowing the influx of patients into the hospital system, "flattening the curve," is critical. To do this, governments must take aggressive preventative actions, including rapidly quarantining populations with a high risk of carrying the virus. Clearly, one result of such steps will be dramatically reduced economic activity; the longevity of the slowdown, however, is still highly uncertain.

## Tactical Indicators

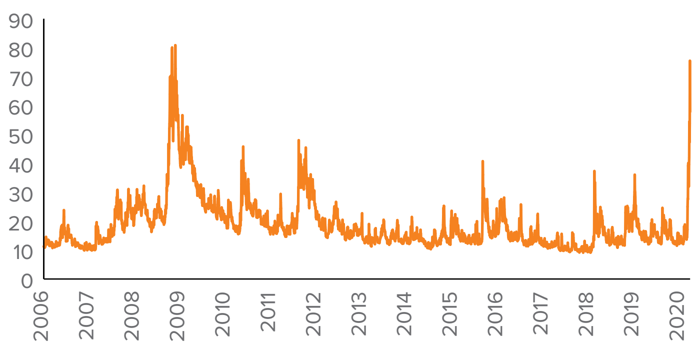
**Economic Growth (negative):**
Economic growth is in the early stages of contracting

**Fundamentals (negative):**
Fallout from the coronavirus will drag down earnings globally

**Valuations (positive):**
Large drop in equity prices and interest rates makes stocks more attractive than bonds

**Sentiment (positive):**
Equity market sentiment is currently signaling panic

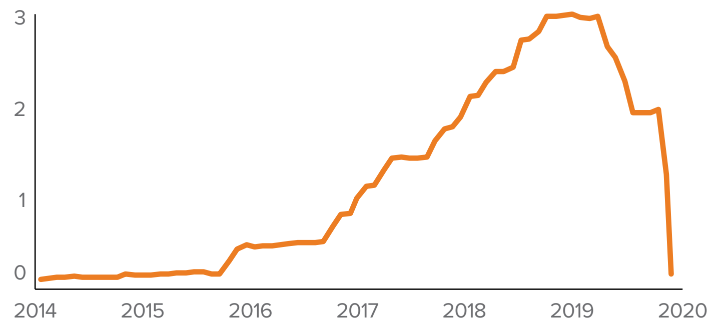
**Figure 1. VIX volatility index has spiked to levels last seen in the depths of the financial crisis**




Source: Bloomberg, Voya Investment Management, as of March 13, 2020

**Figure 2. Monetary policy has become looser in response to virus-driven demand shock**

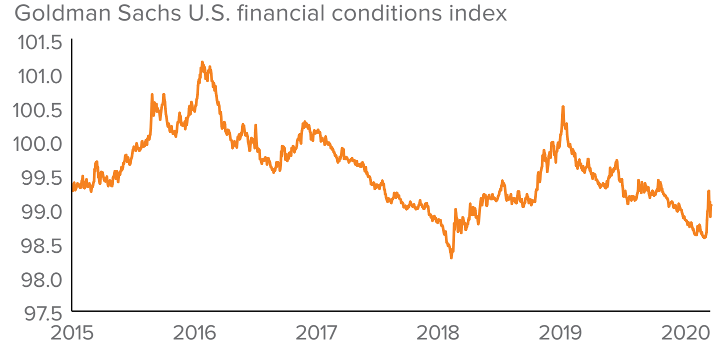
Fed funds effective rate




Source: Federal Reserve Bank of St. Louis, Voya Investment Management, as of March 15, 2020

**Figure 3. Keeping the financial plumbing working to provide liquidity is a must**

Goldman Sachs U.S. financial conditions index




Source: Bloomberg, Voya Investment Management, as of 3/9/20

## Portfolio Positioning

| Equities | ● | |
|---|---|---|
| U.S. Large Cap | ○-○-● | Scale brings competitive advantages that allow large caps to sustain free cash flow and justify valuations |
| U.S. Mid Cap | ○-●-○ | Extended earnings expectations, uninspiring valuations and better opportunities in large cap |
| U.S. Small Cap | ●-○-○ | Fiscal stimulus will need to target smaller companies to bolster working capital during downturn |
| International | ●-○-○ | Europe is now the epicenter of the coronavirus outbreak; ECB programs should lower financing costs, but fiscal support, as well as progress on infection containment are also needed |
| Emerging Markets | ○-○-● | Easing global financial conditions, progress on containing the coronavirus in Asia and substantially cheaper prices |
| REITs | ○-●-○ | Attractive yields, but valuations are expensive; exposure to hotels and other sub-sectors appear particularly vulnerable |
| **Fixed Income** | ● | |
| U.S. Core | ○-○-● | We maintain a neutral duration posture and favor quality investment grade bonds given the late stage of the credit cycle |
| Non-Investment Grade | ●-○-○ | Favor high quality fixed income, but spreads look increasingly attractive in the wake of the sell-off |
| International | ●-○-○ | Low absolute and relative yields lead us to favor U.S. bonds |

Underweight ● Neutral ● Overweight ●

## Investment Outlook

With the social and economic consequences of the coronavirus outbreak still highly uncertain, abnormally high volatility will persist for the foreseeable future. Nonetheless, we view the outbreak as a temporary, exogenous shock to both the demand and supply sides of the global economic system, culminating in what we anticipate will be a relatively shallow, technical recession. Our research suggests that once the virus is contained, output and growth should resume at its previous levels. Although the coronavirus is both more deadly and contagious, and thus potentially more disruptive, than other viruses, evidence from Asia appears to show that if we take proper preventive steps, we should be able to get the spread under control within the next few months.

It is way too early for any country to claim victory and many concerns have been raised about the U.S. healthcare system's preparedness, so confidence bands around our base case are wide. While the knock-on effects of the viral outbreak will take time to work their way through the economy, productive capacity should not be fundamentally impaired, in our opinion.

It is also important to remember the starting point from which the outbreak occurred. Following the global slowdown in 2018 and early 2019, the Federal Reserve provided a couple doses of stimulus that appeared to be laying the groundwork for a pickup in growth. There was a lot of momentum heading into year-end: trade concerns had subsided, manufacturing activity was accelerating, and the U.S. stock market was setting all-time highs. Additionally, consumers have been in a fortified position for several years with labor markets tight and household balance sheets strong, which was not the case during the last bear market in 2007–2008. Although spending will certainly dip, we expect that most of the job market will hold up; as a result, consumers should remain more resilient than in other recessionary periods.

Much of this view is based on our expectations for supportive federal policy responses. The Federal Reserve has demonstrated its willingness to counter the demand drop with an off-cycle, 50-basis-point (bp) rate cut at the beginning of March and another 100-bp cut on March 15, taking its target rate to a range of 0.00–0.25% (Figure 2). These actions, the accompanying guidance and lack of inflation signal to us that the Fed stands ready to deliver more stimulus to limit the tightening of financial conditions (Figure 3). We also anticipate the government will unveil a fiscal package that we hope will be targeted at the most vulnerable segments of the economy.

Against this backdrop and alongside violent, multiple de-ratings in stocks that have expanded the equity risk premium, we believe stocks are currently more attractive than bonds. Within asset classes we maintain our preference for lower beta large cap U.S. equities and higher quality fixed income. We watch for signs of confidence restored before entering or adding to the most beaten down asset classes.

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## Multi-Asset Strategies and Solutions Team

Voya Investment Management's Multi-Asset Strategies and Solutions (MASS) team, led by Chief Investment Officer Paul Zemsky, manages the firm's suite of multi-asset solutions designed to help investors achieve their long term objectives. The team consists of 26 investment professionals who have deep expertise in asset allocation, manager selection and research, quantitative research, portfolio implementation and actuarial sciences. Within MASS, the asset allocation team, led by Barbara Reinhard, is responsible for constructing strategic asset allocations based on their long term views. The team also employs a tactical asset allocation approach, driven by market fundamentals, valuation and sentiment, which is designed to capture market anomalies and/or reduce portfolio risk.

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