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Voya Global Perspectives

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Executive Summary

- Seemingly bottomless oil prices conspired with a skittish China and central bank uncertainty to drive markets sharply lower in January.
- China's unusual policy approach is raising concerns that the country is in bigger trouble than official economic data suggest.
- Central banks still have extraordinary power to support economies and markets.
- Fundamentals light the way in an uncertain world; while 2015 earnings look negative, the outlook for 2016 is positive.

Equity Markets Worldwide Plummeted

Index	Jan. 2016
Equity	
S&P 500	-5.0
S&P MidCap 400	-5.7
S&P SmallCap 600	-6.2
Global REITs	-4.3
EAFE	-7.2
Emerging Markets	-6.5
Fixed Income	
Corporate	0.4
U.S. Treasury 20+	5.2
Global Aggregate	0.9
High Yield	-1.6
Senior Loans	-0.4

Data as of 01/31/2016
Source: FactSet, FTSE NAREIT, Voya Investment Management

Uncertainty Tackles Markets as Fundamentals Take a Time Out

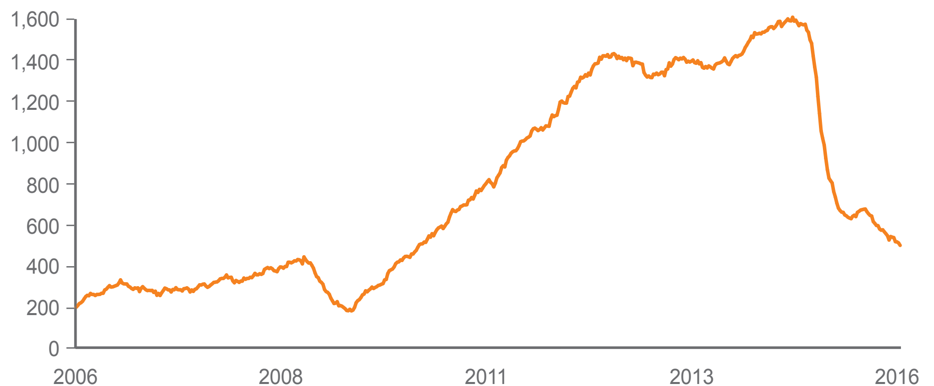
Global markets plummeted in January, kicked off by a historically bad year-opening week of U.S. stocks. The downdraft was prompted by continued uncertainty around the seemingly bottomless oil markets. China's unusual policy actions added to the tumult, while the potential for central bank intervention continued to lurk in the background as a potential wild card to either the upside or downside.

A quick review of these three uncertainties:

- **Crude oil** prices fell more than 20% in the first couple weeks of January, breaking below $30 per barrel and sending global markets plummeting on fears of a severe supply glut. These supply concerns have been enflamed by OPEC's ongoing refusal to cut production, increasing U.S. inventory despite falling rig counts and the return of Iranian production to the global market. The adverse impacts of a petro-recession will be felt most keenly in emerging markets, credit markets, capital expenditures and employment, ultimately weighing down global economic growth.

Oil Glut Outlook May Improve on Production Cuts

Baker-Hughes Rotary U.S. Oil Rig Count



Source: FactSet

- **China's** unusual approach to fiscal and monetary policy is raising concerns that the country is in much deeper trouble than its official economic statistics indicate. Beijing has been both tightening policy — by depleting its reserves to defend its currency — and loosening it — by cutting rates to spur economic growth. Meanwhile, the country's transition to a more consumer-oriented economy is hurting exports, imports and manufacturing, spurring currency weakness and capital outflows.

- **Central banks** still have extraordinary power to assist their economies, markets, inflation rates and employment levels. Without accompanying pro-growth reform, however, the benefits of central bank support seem transitory. For example, recent hints from the ECB about a potential March increase in monetary stimulus sent markets soaring before the rally stalled out, while dovish Federal Reserve comments had a similar short-term impact. While the Bank of Japan's bold implementation of negative deposit rates provided a slightly longer boost into January month-end, markets again returned to earth.

Given these uncertain dynamics and the wide range of potential outcomes therein, fundamentals stand alone as a beacon shedding light on the economy and markets. Before we delve into the fundamentals, though, let's take a closer look at January.

Happy New Year?

Global stock markets ended down in January despite a strong month-end rally. In the U.S., large-cap stocks as represented by the S&P 500 dropped 5%, faring better than mid- and small-cap names, which fell 5.7% and 6.2%, respectively. Global equity markets were even worse off, with the MSCI EAFE Index losing 7.2% and the MSCI Emerging Markets Index down 6.2%. Global REITs tumbled 4.3% despite a relatively strong commercial real estate market and the decline in interest rates.

Fixed income investments, meanwhile, provided the risk control fearful investors were seeking, outperforming equities on average by 7%. Notably, long U.S. government bonds — the safe haven in times of turmoil — were up 5.2% to buffer some losses. Within the fixed income space only high yield bonds continued to decline, down 1.6%, as investors fretted the increasing risks of default, especially in energy.

Despite the optimism suggested by the Fed in its December federal funds rate hike, domestic economic data has been mixed in recent readings.

- Fourth quarter GDP grew only 0.7%, an indicator of flagging momentum amid global weakness.
- The manufacturing sector contracted for a third consecutive month in December, raising concerns of a recession, though the risk is still slim.
- Consumers — the game changer — are still doing their part to keep the economy moving.
  - While the 0.1% decline in December retail sales suggests consumers are still reluctant to go hog wild with their gas savings, overall consumer spending in 2015 was the strongest since 2005.
  - U.S. new-home sales rose strongly in December, making 2015 the best year since 2007, and existing-home sales surged at their fastest pace ever during the month.
  - After 222,000 jobs were added each month on average in 2015, a decent 151,000 print in January was enough to bring the unemployment rate down to 4.9%, the lowest since 2008. Wages, meanwhile, picked up 2.5% year-over-year in the latest reading, bolstering a resilient consumer backdrop.

Just the Facts Ma'am

Uncertainty can be investors' undoing, prompting attempts to "game diversification" or reactionary or counter-productive decisions. With all this uncertainty in the world, what can investors cling to? Corporate earnings provide the most unbiased view of the global economy. The S&P 500 — the most followed index in the world, whose members generate nearly half their revenue outside of the U.S. — provides the most reliable lens on global health. And this perspective is concerning.

Rising Rates Haven't Hampered Asset Class Returns

Returns by Asset Class (%)

Fed Tightening Periods	Intermediate Bonds	High Yield Bonds	Short-Term Bonds	GNMA Bonds	Large-Cap Equity	Senior Loans	Small Cap Stocks
04/1987–02/1989	5.01	6.35	6.01	6.16	3.00	N/A	-1.79
02/1994–02/1995	0.01	1.43	2.48	2.19	4.10	9.54	-1.94
06/1999–05/2000	2.11	-3.21	4.02	3.20	10.48	3.93	9.91
06/2004–06/2006	3.09	8.20	2.01	3.47	8.16	5.88	13.71
Average	**2.55**	**3.19**	**3.63**	**3.76**	**6.43**	**6.45**	**4.97**

Source: Barclays, Morningstar, Voya Investment Management

Note: Asset class performance is represented by the following indexes: Barclays U.S. Aggregate Bond Index, Barclays U.S. Corporate High Yield Index, Barclays U.S. Government/ Credit 1–3 Year Bond Index, Credit Suisse Leveraged Loan Index, Standard & Poor's 500 Stock Index, Barclays GNMA Index.

Past performance does not guarantee future results. Performance shown is historical and not indicative of any specific product and does not account for fees and expenses associated with investing in funds. **Investors cannot directly invest in an index.**

- Fourth quarter earnings season is ongoing but will likely result in negative growth for the third consecutive quarter; with 200 S&P 500 companies having reported earnings, the blended earnings growth rate stands at -4.0%, according to FactSet. It is important to note, however, that while earnings growth is down in recent quarters, it has not fallen off a cliff as in 2008.
- The carnage in the energy sector has not shown signs of abating; earnings here are down about 70% so far this quarter. If there is any good news, it is that the energy sector will still contribute about $6 billion to aggregate S&P 500 earnings in the quarter — or about 2% of the total, compared to about 8% a year ago.
- Materials and industrials are also down double digits, led by declines in subsectors connected to energy, such as metals, mining and machinery. Some of these companies were direct suppliers in the shale revolution, while others may be selling equipment to countries that rode the energy boom to its current bust.
- Tech companies typically have the highest international exposure in terms of revenues. The strong dollar finally hit this sector in the fourth quarter, and the information technology sector is looking at a quarterly earnings decline for the first time since the recession despite anecdotal evidence of robust global consumer demand.
- Consumer discretionary and health care are solid positives, affirming the strength of the consumer. The consumer sector has been a standout and will continue to boost earnings in 2016.
- Although 2015 was a rough year for corporate earnings, the outlook for 2016 continues to be broadly positive across most sectors, with consumer discretionary, health care and financials projecting the most growth.

Avoid the Folly of Gaming Diversification

There is little investors can do to quell the uncertainty regarding oil, China and central banks. But they can follow the earnings. Although we are in a midst of an earnings recession, pockets of growth persist and all signs are that the consumer is continuing to move forward; moreover, much of the downside to these uncertainties already has been digested by markets and an economic recession remains unlikely.

As these uncertainties become less so — and eventually they will — earnings should return to growth and guide markets higher. In the meantime, markets will follow earnings, and volatility will test investor discipline. Global diversification, not market timing, can help investors ride out these uncertainties and any other bumps in the road.

Effective Diversification Can Help Investors Ride Out the Bumps

Index	Wgt	Jan. 2016	2015	2014	2013	2012	2011	2010	2009	3 years	5 years	10 years	15 years
Equity													
S&P 500	10%	-5.0	1.4	13.7	32.4	16.0	2.1	15.1	26.5	11.3	10.9	6.5	4.4
S&P MidCap 400	10%	-5.7	-2.2	9.8	33.5	17.9	-1.7	26.6	37.4	8.0	9.0	6.9	7.7
S&P SmallCap 600	10%	-6.2	-2.0	5.8	41.3	16.3	1.0	26.3	25.6	9.1	10.0	6.5	8.2
Global REITs	10%	-4.3	0.1	15.9	4.4	28.7	-5.8	20.4	38.3	4.0	6.7	4.3	8.8
EAFE	10%	-7.2	-0.4	-4.5	23.3	17.9	-11.7	8.2	32.5	1.1	2.0	2.1	3.5
Emerging Markets	10%	-6.5	-14.6	-1.8	-2.3	18.6	-18.2	19.2	79.0	-8.9	-5.2	2.2	7.5
Average		-5.8	-3.0	6.5	22.1	19.2	-5.7	19.3	39.9	4.1	5.6	4.7	6.7
Fixed Income													
Corporate	10%	0.4	-0.7	7.5	-1.5	9.8	8.1	9.0	18.7	2.1	4.6	5.3	5.7
U.S. Treasury 20+	10%	5.2	-1.6	27.5	-13.9	3.4	33.8	9.4	-21.4	5.8	10.2	7.4	7.4
Global Aggregate	10%	0.9	-3.2	0.6	-2.6	4.3	5.6	5.5	6.9	-1.2	1.0	3.7	4.8
High Yield	10%	-1.6	-4.5	2.5	7.4	15.8	5.0	15.1	58.2	0.7	4.2	6.6	7.0
Average	10%	1.2	-2.5	9.5	-2.6	8.3	13.2	9.8	15.6	1.8	5.0	5.8	6.2
Overall Average		-3.0	-2.8	7.7	12.2	14.9	1.8	15.5	30.2	3.2	5.3	5.1	6.5

Data as of 01/31/2016

Source: FactSet, FTSE NAREIT, Voya Investment Management

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