Voya Global Perspectives

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Executive Summary

- Stabilizing oil prices inspired a global relief rally in February as market volatility eased.
- U.S. economic growth has been supported by a resilient consumer segment, while manufacturing is sluggish but improving.
- Earnings growth for S&P 500 companies has contracted for three consecutive quarters, and first quarter 2016 also looks challenging.
- A rebound in growth — both in corporate earnings and the global economy — is the catalyst needed to move the markets into positive territory.

Bonds Have Bolstered Portfolios YTD 2016

Index	Feb. 2016	YTD
Equity		
S&P 500	-0.1	-5.1
S&P MidCap 400	1.4	-4.4
S&P SmallCap 600	1.1	-5.1
Global REITs	0.5	-3.8
EAFE	-1.8	-8.9
Emerging Markets	-0.2	-6.6
Fixed Income		
Corporate	0.8	1.2
U.S. Treasury 20+	3.1	8.5
Global Aggregate	2.2	3.1
High Yield	0.6	-1.0
Senior Loans	-0.5	-1.2

Data as of 02/29/16
Source: FactSet, FTSE NAREIT, Voya Investment Management

Oil Rebound Eases Market Uncertainty

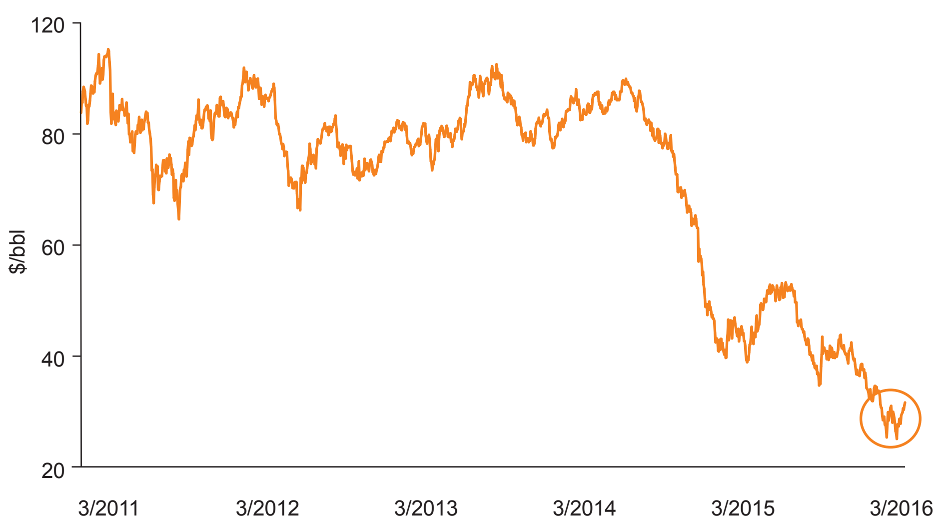
Though the market has been grappling with any number of uncertainties of late, none are as systemically impactful on the global economy as oil prices. Evidence of the profound effect of freefalling energy prices on investor psychology could be seen clearly in February, as signs of a possible bottom in crude set off a global relief rally. Meanwhile, the slight decline of the U.S. dollar from recent peaks has taken further pressure off commodities markets while the domestic economy is bolstered by consumer resilience. With visions of worst-case scenarios subsiding for now, markets are accordingly taking off the Armageddon premium.

Global Markets Rebound Off Lows

Oil surged 28% between February 11 and the end of the month, and domestic equity markets followed suit; with investors more willing to accept risk, the S&P 500 climbed nearly 6% over that period while small-cap stocks spiked more than 8%. International stocks saw less success, however. Japan was particularly hard hit, as the yen counterintuitively surged on the Bank of Japan's initiation of negative deposit rates. Emerging markets were supported by China's resumption of easing and were down only slightly for the month. And despite the sharp bounce off the bottom, all major equity indices globally remain negative for 2016.

Bonds, on the other hand, pulled their weight as risk control instruments in times of turmoil. Safe-haven government bonds weren't buying the risk-off trade just yet, returning another 3.1% to bring the year-to-date haul to 8.5%. Corporate bonds and global bonds were up as well. But the surprise of the month was the positive performance of the beleaguered high yield bond market, which inched up 0.6% — another indication of increased investor risk appetite.

Oil Prices Seem to Have Found a Floor, for Now



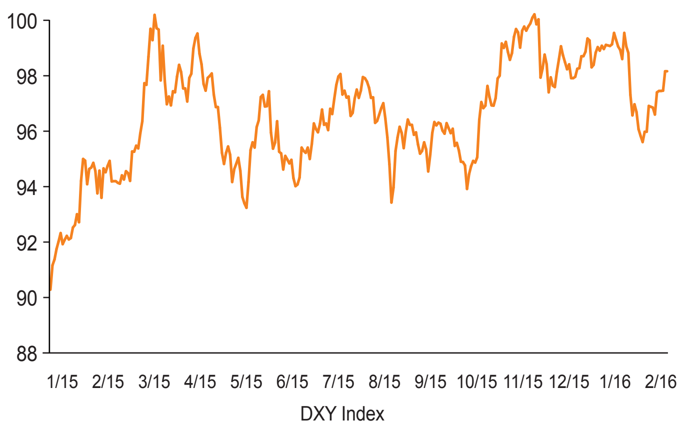
Source: U.S. Dept. of Energy, FactSet
Note: Oil Prices are West Texas Intermediate light crude spot price (NYMEX) as of March 1, 2016.

Headwinds and Tailwinds Persist

The headwinds facing markets did not abate in February. Global growth is still fragile, as evinced by weaker than anticipated euro zone inflation, continued contraction in Chinese manufacturing and a seemingly desperate Japan. Meanwhile, the potential departure of the U.K. from the European Union — i.e., "Brexit" — is the latest ingredient in the soup of uncertainty that is contributing to market skittishness.

U.S. economic data, on the other hand, strengthened in February. The second estimate of fourth quarter 2015 GDP growth was revised to 1.0%, from 0.7% previously, thanks to consumer spending. The consumer's momentum has continued here in 2016; retail sales, record auto sales and personal income surprised on the upside during February. The increasingly tight employment market and jump in wages are insulating U.S. consumers from global weakness. Even the stubborn PCE price index — the Federal Reserve's preferred inflation measure — soared In January to move closer to the central bank's 2% target. Manufacturing remains weak, but all signs point to a moderation in the slowdown, with a surprise increase in industrial production and better than anticipated durable goods orders.

After a Pronounced Surge, the U.S. Dollar Has Stabilized



Source: FactSet

This more positive outlook could work against markets by increasing uncertainty about the Fed's rate-hike timetable. But the biggest headwind dogging U.S. markets is corporate earnings growth, or the lack thereof. Fourth quarter 2015 S&P 500 earnings growth came in negative for the third quarter in a row, a streak not seen since 2009. First quarter 2016 should be even more challenging, as sectors across the board — with the exception of consumer discretionary — have been guiding estimates down, though the newfound stability of the dollar and oil prices should help the international component of earnings. In the meantime, however, markets are lacking the catalyst needed to sustain a surge forward.

Conclusion

In the short term, a dramatic reduction in the risk premium can lead to a surge in markets; we saw this in February, as volatility dropped by more than one-third from its mid-month highs as equity markets rallied. While the oil rebound was the most noticeable salve of market anxiety, expectations of additional accommodation from central banks in China and the ECB also are helping. That said, rebound in growth — not just in corporate earnings growth but in global economic growth — is the catalyst needed to move the markets into positive territory. In the meantime, broad global diversification has been serving the investor well thus far in 2016 and will continue to do so.

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