Voya Global Perspectives

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Karyn Cavanaugh, CFA
Senior Market Strategist

Executive Summary

- Increasingly accommodative central bank policies have inspired an astounding year-to-date reversal in global risk assets.
- While rising asset prices haven't had a meaningful impact on the real economy, there are hopeful signs of a potential second-half 2016 rebound.
- First quarter corporate earnings growth has come in better than expected but is still on track to be negative for the fourth consecutive quarter.
- Despite the lack of robust global growth, all asset classes are positive year to date, highlighting the importance of global diversification.

Risk-Asset Rebound Continued in April

Index	April 2016	YTD 2016
Equity		
S&P 500	0.4	1.7
S&P MidCap 400	1.2	5.1
S&P SmallCap 600	1.2	3.9
Global REITs	0.0	5.4
EAFE	3.0	0.0
Emerging Markets	0.6	6.4
Fixed Income		
Corporate	1.4	5.4
U.S. Treasury 20+	-0.5	7.9
Global Aggregate	1.3	7.3
High Yield	3.9	7.4
Senior Loans	1.4	3.1

Data as of 04/30/2016

Source: FactSet, FTSE NAREIT, Voya Investment Management

Will "Sell in May" Lead Investors Astray?

Markets have staged an astounding year-to-date reversal driven by massive bond buying, negative interest rates and additional stimulus from Europe, China and Japan, all abetted by diminishing prospects of a near-term hike by the Federal Reserve. But while you won't hear many complaints from investors, rising asset prices aren't having a meaningful impact on the real economy, as growth and inflation continue to be marked down around the world.

These things take time, of course, and there are certainly positive signs currently and increasing evidence of a potential second-half 2016 economic rebound. Meanwhile, the four Cs — central banks, China, commodities and currencies — dogging markets and economies at the start of the year are now somewhat in the rearview mirror. The Fed, as mentioned, has backed off rate hikes for the near future. China likely has bottomed on the heels of fiscal and economic stimulus in the neighborhood of $1 trillion, its largest injection on record. A stable China has led to a surge in a variety of commodities — certainly oil but also metals, notably iron ore and copper. The U.S. dollar is astounding investors as it continues to slide, easing the burden on emerging markets at the expense of a strengthening euro and yen.

Interestingly, markets have seemed to miraculously decouple from oil prices. When oil was plummeting, equity markets moved in lockstep as investors feared every tick down in oil was an affirmation that the global economy was indeed falling off a cliff. Now that oil prices have rebounded into the mid-$40s markets seem indifferent — for now, at least. But until corporate earnings get back into growth mode there will be concerns that all is not well with the global economy. Meanwhile, there are any number of issues waiting in the wings to bedevil markets, including Brexit, Middle East unrest, Greece and Puerto Rico debt drama, and the November U.S. elections.

Corporate Earnings Growth Continues to Slow

The U.S. equity market is only modestly higher one-third of the way into 2016, with momentum sputtering in April. The reason for the latest malaise is first quarter corporate earnings growth, which — while better than expected — is on track to be negative for the fourth quarter in row. Earnings beats may provide some temporary respite to investors, but earnings growth is needed to significantly catapult the market forward. We saw this over and over in April; once the sugar high of a better-than-expected report subsides, the market takes a nap.

Negative earnings growth is forecast to continue through the second quarter; while the downturn is expected to be less severe than it was in the first quarter, estimates have pulled back dramatically. The already beaten-down tech sector, for example, has seen its second quarter earnings growth estimate slashed from +3.8% at year-end 2015 to -9.5% currently.

Domestic Equities Take a Backseat in April

Overseas markets outpaced large-cap domestic names in April. Emerging markets, in particular, have continued to rebound from oversold conditions thanks to stronger currencies, compelling valuations and ample developed central bank stimulus. While emerging markets are the leaders year to date, international developed markets surged 3% in April to bring them

above breakeven for 2016. Global REITs were flat on the month but are enjoying a 5.4% year-to-date return. Small- and mid-cap names also did better than the S&P 500 in April, as investors returned to more risky capitalizations knowing the Fed was providing a backstop.

Bonds, on the other hand, have continued to be the stoic driver of returns and risk control. High yield bonds, the same bonds no one wanted to touch at the beginning of the year, returned 3.9% in April alone. Investment grade corporates, global bonds and bank loans returned 1.4%, 1.3% and 2.3%, respectively, for the month. And although long treasury bonds were down slightly in April, they are still the runaway leaders for the year among all assets. Investors concerned about the potential for elevated yields and the impact that would have on fixed income may be better served worrying about the reasons rates are so low. With global banks piling on the stimulus, interest rates are constrained. Meanwhile, inflation has yet to manifest itself in wage growth, and, most importantly, real economic growth remains scarce.

Global Economy: Ailing but Alive

A human body uses pain as a sign that something is unhealthy, that something needs to change. An economy, too, delivers warning signals when something is amiss. And while stimulus can serve as a temporal painkiller for an economy in distress, a more robust form of structural repair is needed to truly get it back on its feet. In the meantime, central banks will continue to buy bonds, thus keeping rates low, while lamenting slow growth and lack of inflation.

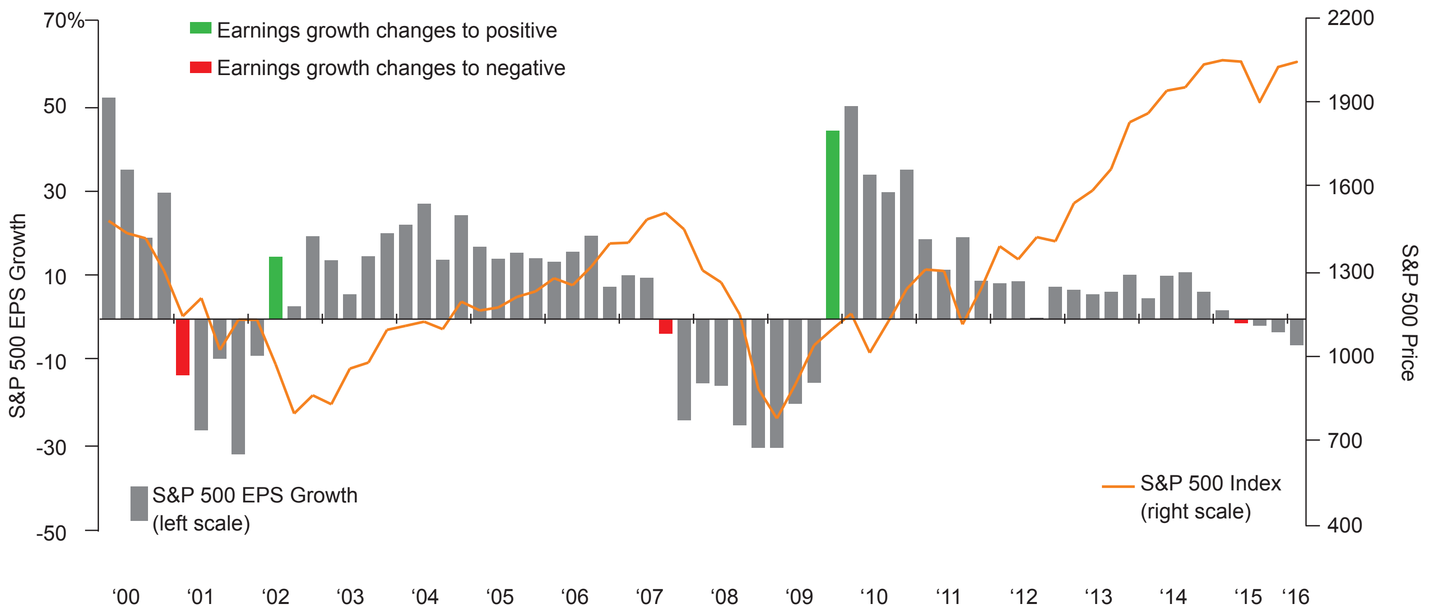
This may prompt astute investors to consider which came first: the chicken or the egg? Are central banks stimulating economies or merely enabling structural problems to endure? Negative interest rates were introduced in Japan and several European countries and were viewed by many as a confidence-sapping last-ditch effort by central banks to increase spending. Results have been mixed. The Japanese yen, for example, long considered a safe haven, strengthened 11% this year; in fact, the *Wall Street Journal* reported a run on safes in Japan as citizens sought to hoard cash rather than spend it — not exactly the result the BOJ was expecting. Gold is also making headlines as a safe haven, increasing 21% so far this year.

While economic growth is meager, it does exist. The first quarter's initial U.S. GDP growth print of 0.5% will probably be revised higher and points to the steady resilience of the consumer since the end of the recession. Housing and employment figures support the ongoing advance of the consumer and a full-year 2016 GDP growth forecast of about 2%. Manufacturing has been steady, and the ISM index has been in expansion territory for the last two months — sluggish yes, but stable and steady.

Conclusion

While investors may need to get comfortable with this slow grind higher, acceptance does not mean capitulation. Monetary policy is a tool not a cure-all, and Janet Yellen is not the Wizard of Oz. Investors realize this and are becoming increasingly reluctant to expect a different end given the same means.

Corporate Earnings Likely to Post Fourth Straight Quarter of Negative Growth in 1Q



Source: FactSet, Voya Investment Management

This is not to say that investors should run to cash, however. “Sell in May and walk away” market timing has been a losing strategy most of the time. By providing steady income and risk management, bonds enable investors to dive prudently into equity markets that offer the potential to boost returns. And despite the lack of global growth, all asset classes are positive — yes, positive — year to date, once again making the case for global diversification, especially when road to normal may be more bumpy than expected.

Fixed Income Investments of All Types Help Provide Stability to a Portfolio

Index	Spread	April 16	YTD	2015	2014	2013	2012	2011	2010	2009	1 year	3 years	5 years	10 years
U.S. Investment Grade														
Treasury	0	-0.1	3.1	0.8	5.1	-2.7	2.0	9.8	5.9	-3.6	2.8	1.8	3.3	4.7
Treasury (1-3YR)	0	0.0	0.9	0.6	0.6	0.4	0.4	1.6	2.4	0.8	0.9	0.8	0.8	2.5
Treasury (20+YR)	0	-0.5	7.9	-1.6	27.5	-13.9	3.4	33.8	9.4	-21.4	5.5	4.7	10.0	8.3
Government Related	79	0.4	3.5	-0.4	6.1	-2.7	4.9	6.7	5.0	2.5	1.8	1.8	3.2	4.6
Corporate	146	1.4	5.4	-0.7	7.5	-1.5	9.8	8.1	9.0	18.7	3.0	2.9	5.1	6.0
Fixed rate MBS	20	0.2	2.1	1.5	6.1	-1.5	2.6	6.3	5.5	5.8	2.6	2.6	3.1	4.9
ABS	68	0.2	1.6	1.2	1.9	-0.3	3.7	5.1	5.9	24.7	1.9	1.3	2.3	3.4
CMBS	97	0.4	4.1	1.0	3.9	-0.1	8.6	6.2	18.5	28.3	3.3	2.7	3.9	5.4
Hybrid ARM	7	0.0	1.7	0.9	2.2	0.1	2.4	3.6	2.5	7.8	1.7	1.5	1.9	3.7
Barclays Aggregate	50	0.4	3.4	0.5	6.0	-2.0	4.2	7.8	6.5	5.9	2.7	2.3	3.6	5.0
High Yield and Global														
High Yield	577	3.9	7.4	-4.5	2.5	7.4	15.8	5.0	15.1	58.2	-1.1	2.5	5.4	7.4
Global Aggregate	47	1.3	7.3	-3.2	0.6	-2.6	4.3	5.6	5.5	6.9	4.8	0.8	1.5	4.3
Emerging Markets	369	1.8	6.4	1.3	4.8	-4.1	17.9	7.0	12.8	34.2	3.4	2.5	5.8	7.2
Senior Loans	440	1.4	3.1	1.4	1.7	6.5	10.1	1.3	10.8	51.6	1.5	3.4	4.6	5.2

Note: All spreads are option-adjusted spreads except for Emerging Markets and Senior Loans. Emerging Markets spread is the spread over the U.S. Treasury curve. Senior Loans spread is the average three-year call secondary spread. All returns are total returns including dividends expressed as percentages. Returns for 3-, 5-, and 10-year periods are annualized. All other returns are cumulative. **Past performance is no guarantee of future results.** Please review important disclosures in the back of this book. Source: Factset.

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