Voya Global Perspectives

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2015 Forecast: Sustainable Global Expansion Driven by Tectonic Shifts

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Introduction

As we enter the new year, the global economy is on a sustainable growth trajectory that will provide a catalyst to financial markets and a source of strength for corporate profits. Though periods of volatility may challenge investor resolve over the course of 2015, resilience will prevail thanks to a global growth story buoyed by tectonic shifts in the real economy, continued improvements in global consumer and business spending, and supportive global central banks.

Of course, resilience has been a defining characteristic of markets for some time now, as we have seen them shake off such potentially destabilizing events as Europe's chronic economic malaise, China's growth slowdown and Japan's sharp and surprising return to recession. And that's not to mention the various geopolitical hotspots — Ukraine, the Middle East and elsewhere — that flared up from time to time. Along the way markets have been fortified by all-time high U.S. corporate earnings; renewed monetary stimulus from central banks in Japan, Europe and China; and plummeting oil prices that have provided a positive supply shock to consumers and businesses. This confluence of events has bolstered markets worldwide (including new records for domestic bourses) and has raised investor confidence that such trends can be sustained into 2015.

Regionally, emerging market economies continue to outpace their G7 brethren. While China with its 1 billion consumers and $10 trillion GDP has led the way, a veritable "new China" has emerged in the ASEAN region,[1] which has more than 600 million consumers and an aggregate GDP of $2.4 trillion. Economic growth in the emerging markets is most notable in those regions with low trade barriers, high foreign direct investment and strong property rights.

[1] The Association of Southeast Asian Nations is a political and economic organization founded in 1967 that now includes Indonesia, Malaysia, the Philippines, Singapore, Thailand, Brunei, Cambodia, Laos, Myanmar and Vietnam.

But there is also progress being made in the developed world. While the U.K. and Germany both are aligned for global expansion, it's the U.S. that truly stands out, due in part to its exposure to the tectonic shifts — particularly in energy — that are changing the economic and investment landscape. However, the dramatic decline in oil prices and the strengthening U.S. dollar are having negative impacts elsewhere, wreaking havoc in oil-producing nations, upsetting the capital expenditure plans of global energy companies and pressuring the currencies of emerging markets.

Though global economic growth slowed to a standstill during the Great Financial Crisis, it has since picked up at a level in excess of a year's worth of U.S. output — an astonishing feat that shows no sign of abating. As we complete the fifth year of a relentless bull market that has persevered through seemingly insurmountable challenges, we examine the drivers that we expect to sustain both the global economy and the equity rally in 2015.

Figure 1. Forecast for Year-End 2015

S&P 500 Price	2200
S&P 500 Earnings per Share	$130
U.S Ten-Year Treasury Yield	2.65%
U.S. GDP Growth	3.5%
Euro Zone GDP Growth	0.50%
U.S. Unemployment Rate	5.00%
Crude Oil (NYM)	$68/barrel
Gold (NYM)	$999/troy oz
Euro/U.S. Dollar	$1.16
Global GDP Growth	4.0%

TRED With a Global Perspective

Yogi Berra once said, "If you don't know where you are going, you might wind up someplace else." With this in mind, we've built our 2015 expectations employing a multi-faceted framework that seeks to pinpoint both our destination as well as our current location.

We've dubbed this approach TRED, and it includes the following:

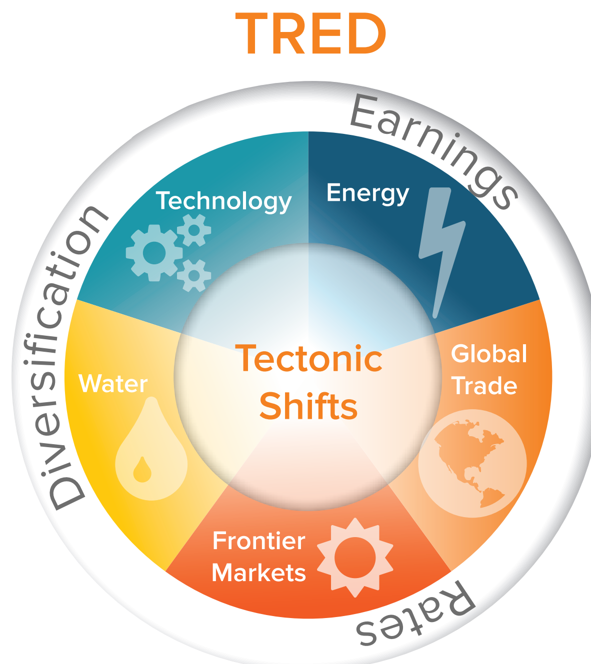
Tectonic Shifts are both catalysts for explosive growth as well as long-term risks that bear careful watching. They move markets in ways that defy conventional forecasting, often revealing themselves in extraordinary, trend-reversing price shifts.

Rates provide a window into the overall economic health of countries, regions and the world as a whole. Their impact can be seen in inflation levels, sovereign yields, currencies and the unconventional central bank policies that have been the norm since the Great Financial Crisis.

Earnings deliver an unbiased view of the strength or weakness of a cross-section of global and domestic companies, not only driving individual investment decisions but also reflecting the health of the global economy.

Diversification enables investors to pursue a thoughtful, considered investment philosophy that replaces unintended bets with prudent investment discipline.

We believe markets ultimately reflect economic activity and innovation trends that are dynamic, integrated and ever-evolving — but not always evident in day-to-day pricing. TRED provides an integrated view of global economies, financial markets and investment strategy, positioning investors to withstand bouts of volatility with confidence in what lies on the other side of the storm. Building wealth is predicated on taking risk, not avoiding it; a reliable and an adaptive approach to assessing that risk on an ongoing basis is essential to developing resilience in the face of volatile markets.



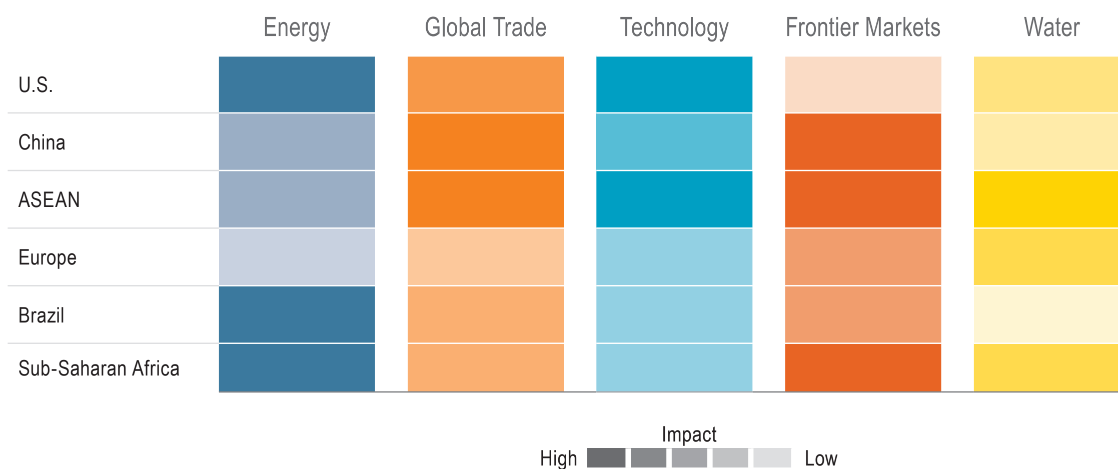
TRED: Tectonic Shifts

Forecasting typically involves extrapolating current readings to establish expectations for future conditions. While there's a certain time-honored validity to this approach, its shortcomings are thrown into stark relief when a trend quickly changes direction — a not-uncommon occurrence, particularly in financial markets in which prices are observable on a real-time basis and exceedingly exploited by forecasters that data-mine price history without regard for an asset's fundamentals. Within the second half of 2014 alone we have seen explosive market rallies, withering selloffs, collapsing commodity prices and debased currencies.

The financial landscape is dynamic and complex; it is imperative that a forecast looks beyond sectors, industries and markets to identify the broader, unifying trends that are driving true change. We call these trends "tectonic shifts", and they include Energy, Global Trade, Technology, Frontier Markets and (new for 2015) Water. Figure 2 below depicts the impact of these tectonic shifts by region.

A forecast must look beyond sectors, industries and markets to identify the broader trends driving true change.

Figure 2. Tectonic Shifts Will Be Felt Across the Globe



Source: Voya Investment Management

Tectonic Shift: Energy

The collapse of oil prices from a sustained high level to what we believe is a sustained low level — a paradigm shift from "high oil" to "low oil" — has been building for years. Simply put, oil — like all markets — is subject to the economics of supply and demand; when price shifts higher, demand shifts lower and seeks alternatives while supply also shifts higher to exploit excess profits. By choosing to ignore Econ 101, the Organization of the Petroleum Exporting Countries (OPEC) sowed the seeds of its own destruction. Persistently high oil prices inspired the U.S. energy renaissance, as oil-patch entrepreneurs married age-old drilling techniques with modern technology to launch the most unexpected and successful supply side shock in a generation — supply that would not have been feasible at lower oil prices. We expect drilling technology will continue to improve apace, increasing output, lowering costs and putting the OPEC cartel — a myopic and monolithic monopoly — out of business.

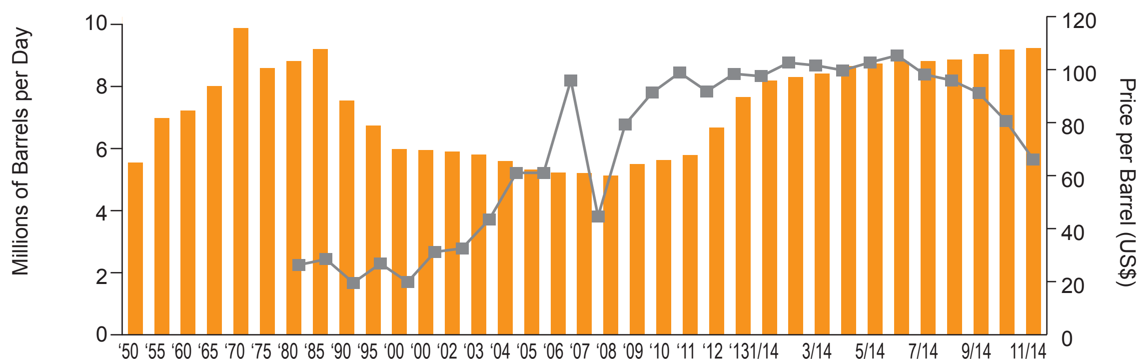
We continue to view energy as a competitive weapon for the U.S. to promote economic prosperity, security and its citizens’ standard of living while also sheltering its allies from threats by oil-producing nations. U.S. production has increased 60% over the past ten years, according to the Energy Information Administration, while oil imports have declined 42%. And demand is sagging thanks to improved efficiency as well as developments in renewable energy and electric vehicles.

While the U.S. is undergoing an energy renaissance, Europe remains in thrall to volatile oil-producing nations like Russia while also being hamstrung by regulations that have neutered its carbon energy infrastructure and nuclear industry. Looking to Asia, China, India and Japan are highly dependent on imports of energy and are benefiting from lower oil prices; in fact, the International Monetary Fund projects that every 10% drop in oil prices adds 0.2% to the GDP growth of these nations. The 40% drop in Brent Crude prices over the last six months has thus boosted global economic growth by 0.8%!

Our low-oil inspired optimism is balanced by our experience with previous oil-related tumult.

The move from high oil to low oil is an unprecedented net positive shock that is still being priced by the market. We emphasize “net” here; though consumers of energy by far outweigh suppliers, the losers in this scenario — including certain volatile oil-producing nations as well as global energy producers — have the ability to cause serious global disruptions as they struggle to cope with the sudden onset of a new financial paradigm. For 2015, our low oil-inspired optimism is balanced by our experience with previous oil-related tumult like the 1997 “Asian Flu” and the 1998 Russia/Long-Term Capital Management crisis.

Figure 3. Energy Renaissance in U.S. Has Driven Oil Production Higher



Source: FactSet, Energy Information Administration

Tectonic Shift: Frontier Markets

Frontier markets are the new emerging markets, and concerns about the impact of slowing BRICs (Brazil, Russia, India, China) being offset by these high-growth frontier markets and contributing to the sustainability of global growth in 2015. Last year we pointed out that emerging and developing economies contributed 38% to global GDP in 2013; the IMF projects that this figure will rise to 43% within five years. The emerging and developing economies are projected to grow 5.2% annually from 2015–19, compared with global growth of 4% and 2.4% growth in the advanced economies.

Infrastructure spending is an important driver of the frontier market growth story and presents particular opportunities for industrial companies. A recent study by PricewaterhouseCoopers projects that global infrastructure spending will more than double by 2025 to reach $9 trillion per year, with Asia-Pacific, led by China, representing nearly 60% of it. As PWC puts it, "Underlying the global economic power shift, to emerging markets, is accelerating urbanization in many developing countries, particularly China, India, the Philippines, Indonesia, Ghana and Nigeria, which should result in spending growth in such infrastructure sectors as water, power, telecommunications and transportation." [2]

Demographics are another driver, as the younger populations of developing countries in particular — not only ASEAN but also sub-Saharan Africa — are creating a massive consumer base available to U.S. companies, a trend that will monumentally change the global landscape.

- The ASEAN and sub-Saharan Africa areas are standouts when it comes to projected economic expansion, with each expected to deliver growth in excess of 5.5% each year through 2019 according to the IMF.
- If ASEAN was a country it would have the seventh largest GDP in the world and would be 25% larger than India.
- Africa is the second fastest growing region after developing Asia and now has more than 100 million households with discretionary income. By 2035, Africa will have the largest working-age population in the world.
- In 2014 sub-Saharan Africa has seen 631 mergers and acquisitions, the most since 1995, according to Dealogic.

U.S. companies looking for international growth have a buffet of opportunities to compensate for the tepid expansion being plated by developed economies. Additionally, the benefits of diversification in a global expansion cannot be understated; PIVOTS (Peru, Indonesia, Vietnam, Oman, Turkey and sub-Saharan Africa) toward these potential high-growth opportunities by companies and investors will be rewarded.

The benefits of diversification — including to frontier markets — in a global expansion cannot be understated.

Tectonic Shift: Technology

Technology is revolutionizing the way in which companies conduct business and is driving expenditures. Worldwide information technology and telecommunications spending will grow 3.8% in 2015 to eclipse $3.8 trillion, according to International Data Corporation, with nearly all of this increase — and one-third of total spending — focused on new technologies such as mobile and cloud computing, "big data" analytics and the Internet of Things (IoT).[3] The consumer — whether in the U.S. or in the emerging markets — will be the most visible focus of these and other emerging technologies.

- Mobile devices, social media and big data are creating new conduits through which customers and companies can engage. Companies that understand and can capitalize on the so-called "digital customer experience" will have a competitive advantage.
- Even though the brick-and-mortar holiday shopping season in the U.S. got off to a somewhat lackluster start, Cyber Monday was a blockbuster, with sales spiking 16% over last year to set a new all-time record of $2.65 billion according to an online sales report produced by Adobe. And this was dwarfed by Singles Day in China, which saw Alibaba alone rack up more than $9 billion of online sales on November 11.
- Security threats facing global businesses are expected to persist; these include bring your own device (BYOD) trends in the workplace, data privacy in the cloud, the potential for reputational damage, differing regulations and requirements across domiciles, cybercrime and "hacktivism", and the continued expansion of technology into our everyday lives.

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[2] *Capital Project and Infrastructure Spending: Outlook to 2025*, PricewaterhouseCoopers, 2014.

[3] Frank Gens, "IDC Predictions 2015: Accelerating Innovation — and Growth — on the 3rd Platform," International Data Corporation, December 2014.

Businesses that fail to invest early and big in innovation will be left behind.

Innovation proceeds at an explosive pace, which is part of the reason it's difficult to measure its impact with any great certainty — the next "killer app" may be right around the corner, rendering meaningless any efforts to extrapolate current trends. What we can say with confidence, however, is that businesses that fail to invest early and big will be left behind.

Despite huge cash stockpiles on corporate balance sheets, research and development spending relative to GDP has declined, as regulatory and tax burdens have inspired caution. The enactment of creative pro-business fiscal policy — such as corporate tax reform, as is currently being discussed — could help increase business confidence and may drive the next wave of R&D spending.

Tectonic Shift: Global Trade

Global trade is undergoing a sea change that is redrawing the world's shipping lanes and making the world smaller and more interdependent. This change is being facilitated by countries — in both the developed and developing worlds — that are taking positive action on exports, removing barriers for imports, bolstering trading infrastructure and allowing economic growth-boosting foreign direct investment.

The global trade story is centered on free-trade agreements among emerging and developed economies.

The global trade story is not so much one of absolute growth but rather a shift toward free-trade agreements among emerging and developing economies. The new "Silk Road Economic Belt" — named in honor of the historic intercontinental trade route that for more than 1,000 years connected the East to the West — stretches from China across Central Asia and Russia to Europe and to India, the Middle East and East Africa. It is being heavily promoted by China, and potentially challenges the U.S. as the center of global trade. Already, in 2013 more than half the exports from developing economies were sent to other developing economies, according to the World Trade Organization. Drilling down, countries in Asia sent more than 60% of their exports to other Asian nations, Africa and the Middle East, with only 15% or so going each to North America and Europe.

Given the re-emergence of intra-Asian trade, the U.S. and Europe have ramped up their efforts to remain relevant. There are three pacts, in particular, under discussion that would be especially significant for these Western powers.

- The Trans-Pacific Partnership (TPP) is a proposed free-trade agreement among the U.S. and 11 other counties stretching from Vietnam to Chile to Japan encompassing about 800 million people and almost 40% of the global economy.
- A sort of companion agreement to the TPP, the Transatlantic Trade and Investment Partnership (TTIP) would establish similar linkages between the U.S. and Europe. The U.S. already ships more than $730 million of goods to Europe daily.
- Perhaps the most ambitious of the deals currently being discussed, the Free-Trade Area of the Asia-Pacific (FTAAP) would create a free-trade zone among a group of nations that includes both the U.S. and China.

In the current environment, a country that hesitates to aggressively bolster its trade prospects risks quickly falling behind the rest of the world. Japan, in particular, is a country to watch after Prime Minister Shinzo Abe recently tightened his grip on power with a mandate for pro-growth economic reforms. A broad alliance among Japan, China, ASEAN and the U.S. and others would not only boost economic growth but shift it to another level entirely. In the past, deals of this magnitude took decades to negotiate, but these are not ordinary times.

Tectonic Shift: Water

Water joins our list of tectonic shifts in 2015, the first addition since we introduced the concept three years ago. Water is a requirement for sustainable global growth, impacting the security, survival and prosperity of consumers and businesses worldwide. The relative scarcity of water is already influencing markets; its impact will only increase going forward, ultimately acting as a headwind to corporate earnings and global economic growth.

A few items of note:

- Although water covers two-thirds of the earth's surface, the vast majority is too salty for use. Only 2.5% is usable, and most of that is locked up in icecaps and glaciers, leaving humans with access to less than 0.08% of all the earth's water. The United Nations estimates that in sub-Saharan Africa alone, more than 40 billion hours per year is spent merely collecting water, a definite drag on economic activity there.
- A multiyear drought has strained domestic resources from the Colorado River to the Ogallala Aquifer (the world's largest aquifer, under eight states from Texas to South Dakota), pushing America's breadbasket — from the Midwest to California — into a water crisis; a study published by the American Geophysical Union suggests California's current drought has resulted in the worst conditions in 1,200 years. This not only impacts the world's food supply, it also presents a risk to the water-intensive domestic fracking industry while boosting the prospects for renewable energy sources like wind.
- The need for usable water impacts corporations across sectors, not just agricultural concerns (think, for example, of a technology firm's need to keep its servers cool). Many are taking action. For example, miners are taking part in a private multibillion dollar desalinization facility in Chile, while a major international food company is creating in Mexico the first "zero-water" plant.
- China is on the verge of completing the latest leg of its South-North Water Diversion Project, a multi-decade endeavor that policymakers hope will solve the water problem that threatens the country's development and stability.

After years of exploitation and mismanagement, water — which previously was largely a free resource — has reached oil-like status in terms of its importance to the global economy and will be priced accordingly. As such, companies and economies alike will need to devise innovative ways to provide themselves with the needed water, unleashing a massive wave of infrastructure spending as well as opportunities for investors in this space.

After years of exploitation and mismanagement, water has reached oil-like status.

TRED: Rates

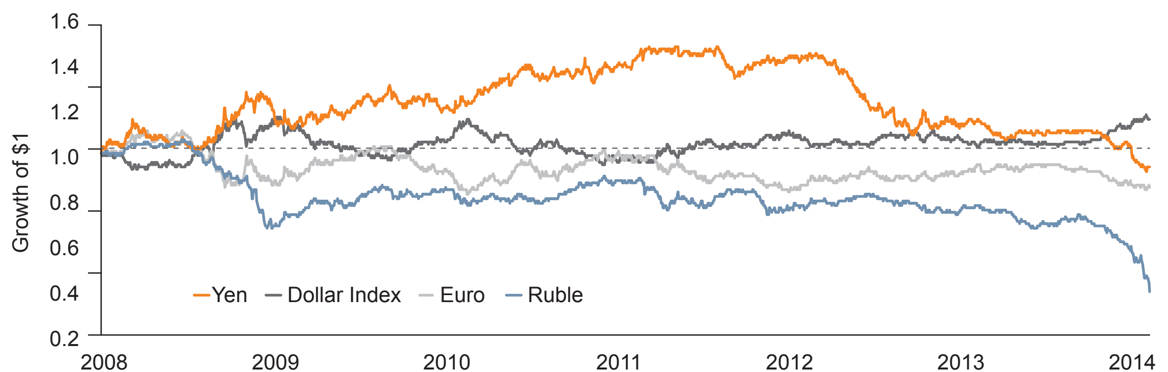
Persistently low rates in 2015 would call into question the market's sanguine attitude.

Rates — inflation rates, central bank policy rates, discount rates, exchange rates — matter, helping shape the behavior of economies, markets, businesses and consumers. While markets have thus far taken the sluggish global economy in stride, persistently low rates in 2015 would call into question the appropriateness of this sanguine attitude. Such an environment would also suggest that markets in general are more concerned with the risk of deflation rather than that of inflation, potentially spawning a number of developments:

- The Federal Reserve may delay any increases in the fed funds rate until end-2015 or later as it waits for inflation levels to move toward its 2% target.
- Europe is at enormous risk for deflation and another recession. To avoid a Japanese-style "lost decade" — or to revive a term first used to describe the region's economy in the 1970s and 80s, "eurosclerosis" — the European Central Bank will need to expand its monetary stimulus program, even if structural reforms are unlikely at this time.
- The People's Bank of China (PBOC) unexpectedly cut lending and deposit rates in late November, the first such cuts in two years, to boost activity. China is slowing, but will remain a positive driver to the global economy.
- After combatting deflation with several "shock and awe" monetary stimulus efforts, Japan is likely to discover that unconventional monetary policy is no substitute for real market reforms.
- Russia faces a currency crisis, as rampant inflation, economic sanctions and low oil brings the country precariously close to economic ruin.
- Emerging economies in general face currency-related pressures, as a relentlessly robust U.S. dollar is fueling the flight of capital from certain of these markets.
- India, with its nascent pro-growth economic policies and rising stock market, will benefit from low oil as inflation pressures ease.

Though the U.S. is slowly returning to a more normal policy environment, low rates will persist in 2015 as Europe, Japan and China continue to supply monetary stimulus. This will strengthen the U.S. dollar and keep yields lower for longer, to the benefit of housing and the consumer. In this environment, we forecast the yield on the ten-year U.S. Treasury to end 2015 around 2.65%.

Figure 4. Currencies Under Pressure



Source: FactSet

TRED: Earnings

The Voya Global Perspectives investment philosophy is “fundamentals drive markets”. It guides our interpretive decisions and investment strategy. It is our beacon, especially during times of market disruptions, geopolitical strife, regulatory risk or those rare extreme events known as “black swans”. Below we discuss how this credo informs our 2015 expectations.

2015 U.S. Earnings and Price Forecast. The key fundamental is corporate earnings, and the most widely followed index in the world is the S&P 500. S&P 500 companies derive over half their sales from overseas markets; as such, consistent year-over-year earnings growth by S&P 500 companies is a positive sign for both the U.S. and global economies.

Consistent S&P 500 earnings growth is a positive sign for both the U.S. and global economies.

- We forecast S&P 500 earnings per share will grow to $130 in 2015, and the index will rise to 2200 based on multiple of 16.9 P/E. This reflects a 7.5% increase in earnings from our 2014 forecast and an 7.5% increase in price from current levels.
- Sales growth will pick up to near 4% in 2015, supporting the sustainability of earnings growth.
- Earnings growth for small- and mid-cap stocks should outpace that of large caps.

Figure 5. Third Quarter 2014 Was Another Strong Period for U.S. Earnings

Sector	Earnings Growth		
	Percent	Positive	Negative
Telecommunication Services	20%	1	4
Financials	19%	55	25
Materials	16%	21	7
Health Care	15%	42	12
Industrials	10%	54	10
Energy	7%	24	18
Consumer Staples	3%	32	7
Utilities	3%	15	15
Information Technology	3%	41	23
Consumer Discretionary	-5%	62	18
S&P 500	**8.2%**	**347**	**139**

Source: Bloomberg, Standard & Poor’s, FactSet

Generally speaking, investors should be more concerned about positioning their portfolios for a robust expansion rather than worrying about slowing economic growth. Our favored equity sectors are those that are most affected by our tectonic shifts: namely, consumer discretionary and industrials.

- **Consumer discretionary.** The U.S. has delivered positive GDP growth in 19 of the past 21 quarters, propelling the net worth of U.S. households to an all-time high of $81.5 trillion as of June 30, 2014, greater than the entire world’s GDP. Recent months have seen a number of developments that suggest a nascent virtuous cycle for consumers. These include a 40% decline in oil prices since June; low rates across the board, with mortgage rates near multiyear lows; continued increases in housing prices; and a strong U.S. dollar that cheapens imports. The November payroll report was a blockbuster and hourly earnings even perked up, suggesting we may be on a path to full employment with strong wages.

The global consumer is swiftly rivaling their voracious U.S. counterparts; fueled by rapid economic growth and favorable demographics, non-U.S. consumers are contributing to an acceleration in global GDP growth. China is now the world's second biggest consumer and is growing at a pace that exceeds that of the biggest (the U.S.); moreover, the country boasts the fastest growing consumer base in the world. A year ago it was reported that spending was only about 45% of China's GDP, but that is inching closer to 50% despite the steady increase in the (government) investment component of GDP. Beyond the BRICs, consumerism is on the rise across emerging markets. In fact, consumer spending in emerging markets has outpaced that in developed markets in every year since 2000, and McKinsey estimates emerging market consumer spending will surge to $30 trillion in the next ten years. In terms of economic growth, McKinsey is even more optimistic than the IMF, forecasting that by 2020 the collective GDP of the emerging markets will overtake that of developed economies.

- **Industrials.** U.S. manufacturing is leading the bull charge, benefiting from both 1) a strong U.S. dollar that lowers material costs and 2) cheaper energy to power operations, as an input source and for transportation. Manufacturing new orders, production levels, exports and employment are at or near high levels. The U.S. has become a manufacturing hub for foreign firms as well as a target for cross-border mergers and acquisitions activity. Emerging market manufacturing has the greatest promise, as we discussed on page 7, with the massive shift of infrastructure spending in these markets for power grids, hospitals, roads, bridges and water projects.

Global Deal Activity Catalyst for Markets in 2015. Global M&A was moribund for years after the Great Financial Crisis, but all that changed in 2014. We expect the trend to continue in 2015 and eclipse the 2007 record for deal volume. Courtesy of Dealogic, here are some of 2014's highlights:

Global M&A activity is approaching 2007's record levels.

- Global M&A activity of $3.2 trillion was the highest since 2007's record $4.0 trillion.
- U.S.-targeted M&A stands at more than $1.4 trillion year to date, up 43% compared to 2013.
- M&A in Asia-Pacific (ex Japan) is running at a record-high $567 billion year to date, with China as the region's top target.
- Year-to-date global cross-border M&A is the highest since 2008; the U.S. continues to be the top targeted nation in terms of both volume and activity.

The consensus estimate for year-over-year growth in U.S. corporate profits is 9.2%, but solid expansion is not limited to our shores. In Figure 6, you can see that earnings growth expectations are broadly positive across global markets.

Figure 6. Corporate Profits Are Expected to Be Strong Globally in 2015

Year-Over-Year Earnings Growth (%)

	2014E	2015E
S&P 500 Index	6.0	9.2
MSCI Emerging Markets	4.8	13.5
Japan Nikkei 225	19.1	11.0
MSCI Frontier Markets	7.2	10.4
MSCI EAFE	14.5	10.3
MSCI BRIC	3.7	10.0
MSCI China	5.0	7.8

Source: Consensus estimates from FactSet as of December 4, 2014

TRED: Diversification

This final element of our TRED framework — Diversification — also serves as the conclusion of our 2015 forecast and our prescription for action going forward.

The latest Dalbar study of investor behavior found that over the past 20 years the average asset allocation investor generated a return that barely outpaced inflation. Given that most asset classes — including those reflected by widely benchmarked indexes like the S&P 500 and Barclays U.S. Aggregate Bond Index — had positive real returns over this period, this lack of success is no mean feat. Obviously, mistakes were made. But what can investors do to avoid repeating them in the future?

The answer may be effective diversification focused on balancing return objectives with risk tolerance. The primary reason that investors failed to even keep pace with the broad market indexes is likely a function of excessive risk-taking fueled by a lack of a guiding investment philosophy. Rather than developing a sensible plan and sticking to it, investors tend to move in and out of assets indiscriminately in an effort to chase returns; they buy as assets rally and sell in capitulation when volatility is at its greatest. The kaleidoscope of annual asset class winners and losers shown in Figure 7 helps explain why we witness suboptimal investment decisions with such frequency. It's worth noting that the S&P 500 — which makes up the lion's share of many portfolios — has the worst record among these indexes for the 15 years depicted.

Figure 7. Variability of Returns Highlights Importance of Broad Diversification

2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Global REITs 25.9	Global REITs 15.5	U.S. Treas 20+ 17.0	Emerging Mkts 91.7	Global REITs 30.4	Emerging Mkts 44.5	Emerging Mkts 56.6	Emerging Mkts 59.1	U.S. Treas 20+ 33.7	Emerging Mkts 93.5	Mid Cap 26.6	U.S. Treas 20+ 33.8	Global REITs 29.8	Small Cap 41.3	U.S. Treas 20+ 27.5
U.S. Treas 20+ 21.5	Corp Bonds 10.3	Global Bonds 16.5	MSCI EAFE 39.2	Small Cap 22.6	MSCI EAFE 14.0	Global REITs 43.7	MSCI EAFE 11.6	Global Bonds 4.8	High Yield 58.2	Small Cap 26.3	Corp Bonds 8.1	MSCI EAFE 17.9	Mid Cap 33.5	Global REITS 15.9
Mid Cap 17.5	Small Cap 6.5	Corp Bonds 10.1	Small Cap 38.8	MSCI EAFE 20.7	Mid Cap 12.6	MSCI EAFE 26.9	Global AA 10.5	Corp Bonds -4.9	Global REITs 41.3	Global REITs 20.0	Global Bonds 5.6	Mid Cap 17.9	S&P 500 32.4	S&P 500 13.7
Small Cap 11.8	High Yield 5.3	Global REITs 5.2	Global REITs 38.5	Emerging Mkts 17.1	Global AA 10.0	Global AA 19.2	U.S. Treas 20+ 10.2	Global AA -24.8	Mid Cap 37.4	High Yield 15.1	High Yield 5.0	Small Cap 16.3	MSCI EAFE 23.3	Mid Cap 9.8
Corp Bonds 9.1	U.S. Treas 20+ 3.6	High Yield -1.4	Mid Cap 35.6	Mid Cap 16.5	U.S. Treas 20+ 8.6	S&P 500 15.8	Global Bonds 9.5	High Yield -26.2	MSCI EAFE 32.5	S&P 500 15.1	S&P 500 2.1	S&P 500 16.0	Global AA 11.9	Global AA 7.7
Global AA 3.9	Global Bonds 1.6	Global AA -3.2	Global AA 32.4	Global AA 15.3	Global REITs 8.3	Small Cap 15.1	Mid Cap 8.0	Small Cap -31.1	Global AA 31.9	Global AA 14.5	Global AA 1.1	High Yield 15.8	High Yield 7.4	Corp Bonds 7.5
Global Bonds 3.2	Global AA -0.5	Emerging Mkts -12.6	High Yield 29.0	High Yield 11.1	Small Cap 7.7	High Yield 11.8	S&P 500 5.5	Mid Cap -36.2	S&P 500 26.5	Emerging Mkts 9.8	Small Cap 1.0	Emerging Mkts 14.9	Global REITs 2.2	Small Cap 5.8
High Yield -5.9	Mid Cap -0.6	Mid Cap -14.5	S&P 500 28.7	S&P 500 10.9	S&P 500 4.9	Mid Cap 10.3	Corp Bonds 4.6	S&P 500 -37.0	Small Cap 25.6	U.S. Treas 20+ 9.0	Mid Cap -1.7	Global AA 14.6	Corp Bonds -1.5	High Yield 2.5
S&P 500 -9.1	S&P 500 -11.9	Small Cap -14.6	Global Bonds 12.5	Global Bonds 9.3	High Yield 2.7	Global Bonds 6.6	High Yield 1.9	MSCI EAFE -43.1	Corp Bonds 18.7	Corp Bonds 9.0	Global REITs -8.1	Corp Bonds 9.8	Global Bonds -2.6	Global Bonds 0.6
MSCI EAFE -14.0	Emerging Mkts -14.0	MSCI EAFE -15.7	Corp Bonds 8.2	U.S. Treas 20+ 9.0	Corp Bonds 1.7	Corp Bonds 4.3	Small Cap -0.3	Global REITs -48.9	Global Bonds 6.9	MSCI EAFE 8.2	MSCI EAFE -11.7	Global Bonds 4.3	Emerging Mkts -3.3	Emerging Mkts -1.8
Emerging Mkts -21.2	MSCI EAFE -21.2	S&P 500 -22.1	U.S. Treas 20+ 1.8	Corp Bonds 5.4	Global Bonds -4.5	U.S. Treas 20+ 0.9	Global REITs -4.7	Emerging Mkts -59.3	U.S. Treas 20+ -21.4	Global Bonds 5.5	Emerging Mkts -22.7	U.S. Treas 20+ 3.4	U.S. Treas 20+ -13.9	MSCI EAFE -4.5

Source: FactSet

Past performance does not guarantee future results.

As we do every year, we advocate building an effectively diversified portfolio that balances return and risk.

Risk relates to return in a rational way; that is to say, with greater risk comes greater potential reward over time, absent the behavioral finance anomalies that can sometimes dislocate objective logic. This is one of the key assumptions of modern portfolio theory, which though not without its flaws is the best and most time-tested investment approach the industry has today. The goal of modern portfolio theory is to maximize return for a given amount of risk; for 2015 — as we do every year — we advocate building an effectively diversified portfolio that balances return and risk in keeping with this set of principles. Broad exposure to more risky assets enables investors to participate in potentially sharp rallies, while portfolio volatility is kept in check through ownership of risk-control assets like fixed income.

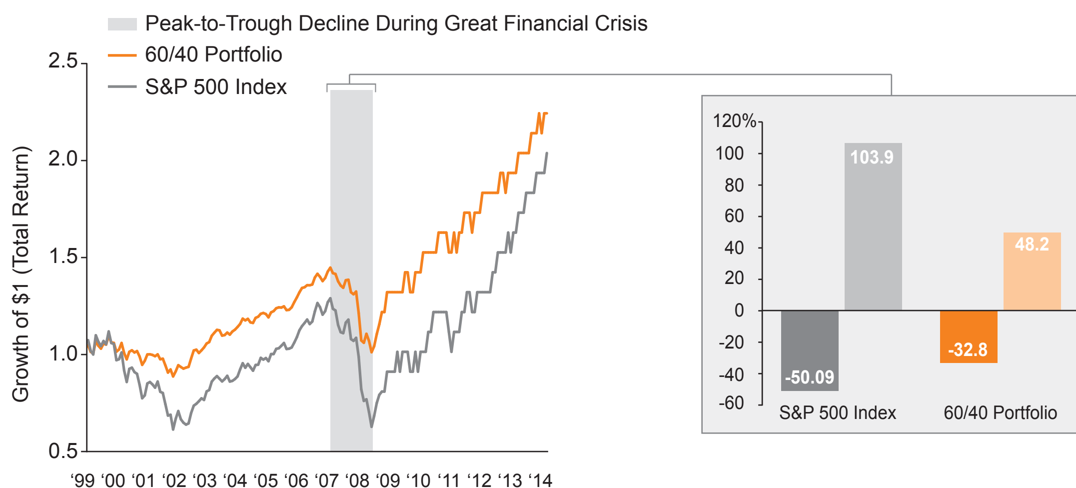
Of course, building effectively diversified portfolios is merely the beginning; maintaining such portfolios is a long-term endeavor fraught with challenges that are best overcome by a strong investment philosophy.

Figure 8. Effective Diversification Builds Wealth and Adds Safety...

Index	2014	3 years	5 years	10 years	15 years
Equity					
S&P 500	13.7	20.9	16.0	8.1	4.7
S&P MidCap 400	9.8	19.5	17.8	10.1	10.0
S&P SmallCap 600	5.8	19.6	18.6	9.0	10.2
Global REITs	15.9	16.1	12.7	7.4	10.5
EAFE	-4.5	12.5	6.9	5.7	3.8
Emerging Markets	-1.8	5.6	3.9	9.8	8.6
Fixed Income					
Corporate	7.5	5.8	6.3	5.7	6.5
U.S. Treasury 20+	27.5	4.4	8.6	7.7	8.2
Global Aggregate	0.6	1.2	2.0	3.8	5.2
High Yield	2.5	9.9	10.1	8.1	7.7
Senior Loans	1.7	7.2	7.2	5.9	N/A

Source: Voya Global Perspectives, FactSet

Figure 9. ...As Evidenced During Great Financial Crisis and Subsequent Bull Market



Source: FactSet as of November 30, 2014

Diversification does not guarantee against a loss, and there is no guarantee that a diversified portfolio will outperform a non-diversified portfolio.

Important Information

Past performance does not guarantee future results.

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There is no guarantee that any forecasts or opinions expressed at this event will be realized. Information should not be construed as legal, estate tax, retirement or financial planning advice.

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