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Executive Summary

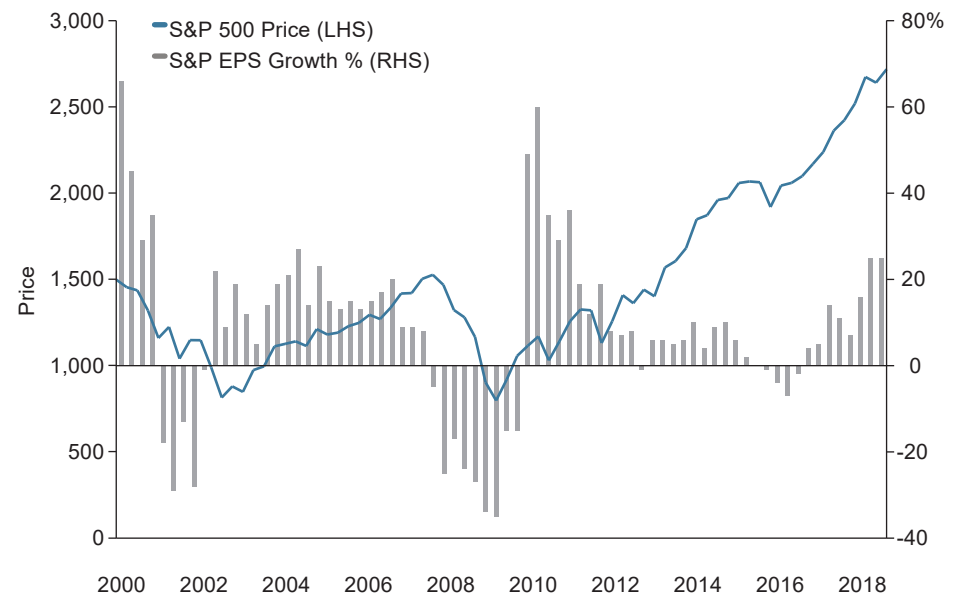
- Ten years after the Great Recession, the economy and markets are thriving thanks to pro-business policies
- Expanding investment and productivity suggest that tax cut incentives have staying power
- Nonetheless, many people remain too risk-averse to take advantage of favorable conditions
- Investors should stay well diversified and embrace the ongoing bull market

The Economic Boom 10 Years after the 2008 Credit Crisis

This autumn marks 10 years since the Great Recession, the worst economic crisis of our time, which arguably came very near to a global depression. The collateral damage was widespread, including the crushing blow to retail investors who became unfortunate pawns of “too big to fail” banks. The crisis was so severe that stopping it required massive government action on a global scale — mainly in the form of central bank monetary stimulus. Policy support intended as a temporary boost instead became a permanent crutch and persists today. An economy leaning on a crutch for too long opens the door for pejorative terms such as “secular stagnation” and “new normal.” The crutch became the problem; removing it took a new path with a different term: “pro-business.”

There was a lot riding on the new path. Pro-business policy has an impressive record of success, but is not magic; it simply puts incentives for risk-taking back into the system by slashing taxes and removing barriers to conducting business. When boldly implemented, it is a jobs machine, generating tremendous economic growth (Figure 1). It has been called “supply-side” economics, in marked contrast to “Keynesian” economics, which requires government intervention to mitigate the impacts of recession. Score this surge in economic growth in the United States, Japan and Spain to “supply-side” policies.

Figure 1. Corporate Earnings Growth is a Barometer for Global Economic Health



Source: FactSet, Voya Investment Management as of 08/31/18. Note: Earnings Per Share (EPS) is the portion of a company's profit allocated to each outstanding share of common stock. The S&P 500 index is a gauge of the U.S. stock market that includes 500 leading companies in major industries of the U.S. economy. **Past performance is no guarantee of future results.** Indexes are unmanaged; investors cannot invest in an index.

Economic Growth with a High Degree of Difficulty

So here we are. Two years into the most pro-business U.S. administration in thirty years, economic growth has been unleashed. Simply looking at the astounding numbers does not do justice to the magnitude of the results. The Federal Reserve (Fed), instead of being in an ultra-accommodative phase — remember QE1, QE2 and QE3 — is now in a tightening phase. Since the presidential election, the Fed has raised rates seven times — with more, a lot more expected. The Fed funds rate has gone from 0.25% to 2.25% while GDP growth has surged to its most recent high of 4.2%. In gymnastics that would be considered perfect execution with a high degree of difficulty and should not be compared to a cartwheel.

GDP: 2Q18 economic growth is the best since 2014

- Headline 4.2% GDP driven by personal consumption, capital expenditures (capex) and net exports
- Capex over the past six quarters, starting in 2017, is up an average of 7.5% each quarter compared to the prior six quarters ending in 2016 at less than one percent (Figure 2)
- 2Q18 productivity grew at its fastest pace in three years, reflecting strong economic growth. The six-quarter change ended in 2Q18 averaged 1.2%, versus a miniscule 0.2% six-quarter change ended in 4Q16

Labor: anyone who wants a job can get one, employers are willing to train

- Record high 6.9 million job openings compared to 6.2 million unemployed
- Near record low unemployment rate for workers without a high school diploma
- Wages are up 2.9% YoY, the highest jump in nine years

Consumers: happy and confident, will continue to bolster economic growth

- Consumer Comfort index new high, breaks 1998 record when GDP was 4.5% YoY
- Conference Board Consumer Confidence Survey at an 18-year high
- U.S. real consumer spending on track to rise 3.5% quarter-over-quarter
- Retail sales at an all-time high of \$509 billion per month

Manufacturing: U.S. pro-business policies offer strong incentives

- The ISM manufacturing index is near a high in September at a robust 59.8, after popping to a 14-year high of 61.3 in August. We saw a 47.8 expansion low in January of 2016
- In the 12 months ended July 2018, U.S. manufacturing added 327,000 jobs, the most since 1995
- ISM services climbed to 61.6 in September, a 21-year high, from August's 58.5

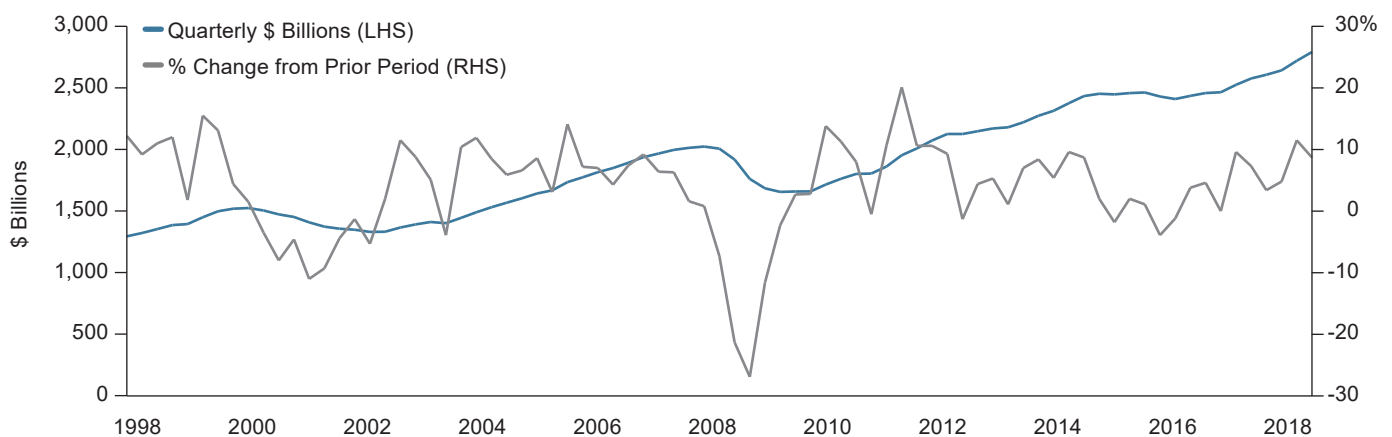
Investors Pessimistic about Equities

In light of all this, investors surely must be thrilled and loading up on equities the past 18 months, but that is not the case. Instead, many continue to move out of equities and into fixed income. Domestic mutual fund equity flows have been negative all year despite the bright outlook. In 3Q18, domestic equity funds witnessed average monthly outflows of \$22 billion while taxable bonds averaged \$11 billion of monthly inflows. For the first time in several years, we have seen price/earnings multiples contract rather than expand, as investors are paying less for each dollar of company earnings. What is so troubling to them?

How Do You Spell Trade Relief? USMCA

Investors received some trade worry relief with the announcement that Canada has signed on to a new trade pact (USMCA – U.S.-Mexico-Canada Agreement), ripping up the outdated NAFTA treaty. This will help ease uncertainty for businesses grappling with ways to modify their operations and supply chains to respond to proposed tariffs. Some of the biggest winners in this deal are U.S. dairy farmers and domestic auto makers. Canada agreed to drop its quota system, which limits imports of some U.S. dairy products, and cars with 75% of their components manufactured in North America will escape tariffs. Steel and aluminum tariffs will remain in place for now. The U.S. agreed to a trade deal with South Korea last week and is now turning its attention to Europe and Japan. All of these deals will work to block China and its growing dominance as a global supplier. The China negotiations are more complex, as they deal with core trade practices involving technology transfer and government subsidized protectionism, so the trade angst is not over yet. Investors seem relieved but still generally cautious.

Figure 2. Supply-Side Policies Spur a Boom in Capital Expenditures



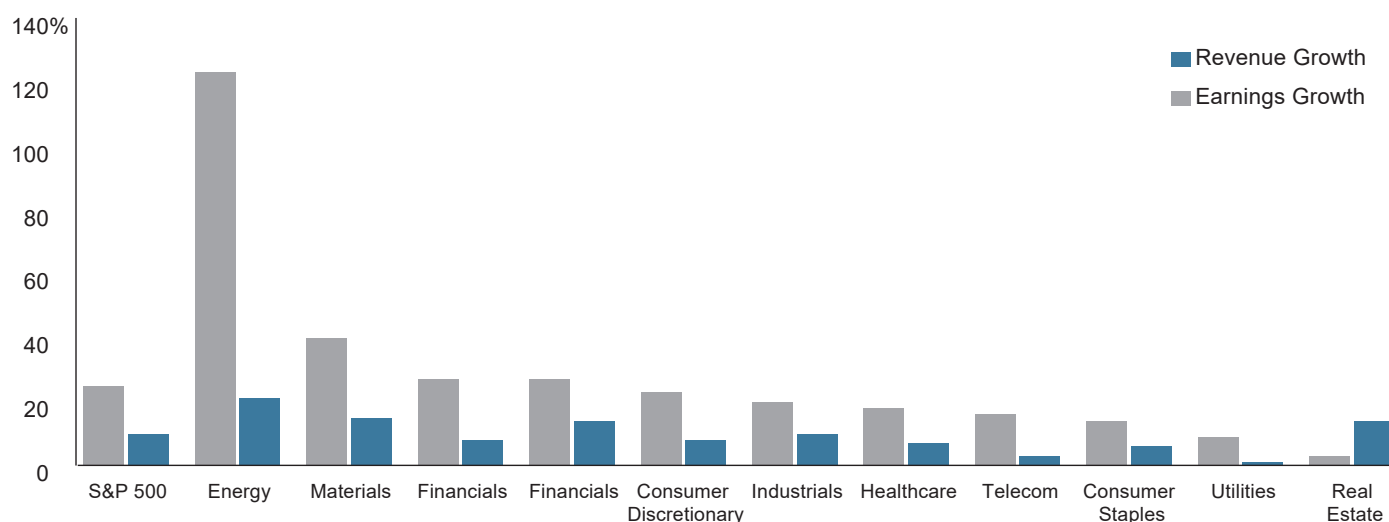
Source: FactSet, BEA. Data as of 06/29/18

Dollar Dread, Rate Anxiety?

After five quarters of decline, the U.S. dollar posted two quarters of strength and the DXY index is up 3.4% this year. A stronger dollar is a headwind to overseas sales and it unsettles emerging markets, especially those with high levels of dollar-denominated debt. With faster economic growth and higher interest rates, the U.S. has inevitably become a more attractive investment destination. As of late, however, dollar strength has shown signs of moderation. Fed transparency has ensured that market prices mostly anticipate rate hikes, and weakened foreign currencies have provided economic boosts to their economies. Barring any significant upside surprises, we believe these factors will mute the dollar's punch.

Rising interest rates have the ability to disrupt markets. Rising rates impact financial assets by lifting the implicit discount rate of a company's earnings stream and putting downward pressure on earnings multiples. They cause bond prices to fall and reign in liquidity. It is important to note, however, that interest rates are comprised of inflation expectations, growth expectations and a term premium. Inflation is not presently a threat. Contrary to a common investor belief, an unemployment rate below the "natural rate" will not cause inflation; only a monetary mistake will. Growth expectations, on the other hand, are strengthening. The tax cuts are not a sugar high but rather a sea change. The infusion of capital investment is increasing productivity and providing a foundation for higher sustained GDP growth. Interest rates have to move higher in accordance with this growth. Markets and investors may find this uncomfortable. Therefore, volatility will rise, especially on interest-rate-sensitive domestic securities and U.S.-dollar-sensitive international securities.

Figure 3. S&P 500 Earnings Reached 25% for 2Q18
2Q18 Index/Sector Earnings and Revenue



Source: Thomson Reuters. Note: Earnings growth is the percentage change in earnings per share compared to one year ago. Earnings surprise percent is the share-weighted average of the ratio of actual company earnings vs. the consensus estimates. **Past performance is no guarantee of future results.** Indexes are unmanaged; investors cannot invest in an index.

Q3 Market Review

An undeniably robust U.S. economy highlighted the third quarter. The strength of the economy has created a flourishing backdrop for corporate earnings, which posted another quarter of 25% growth (Figure 3) coupled with 10% growth in top-line revenues. As a result, the S&P 500 was up 7.7% for the quarter. Political drama, trade worries and Fed rate hikes tried valiantly to counter the abundantly positive outlook but were no match for solid fundamentals and soaring consumer and business confidence. Trade tensions have yet to make a meaningful dent in GDP or earnings and rates are higher for the right reasons — organic economic growth.

Notably, the third quarter marked the milestone for the longest bull market run ever. In addition, the market has powered to all-time highs. Contrary to investor sentiment, age is irrelevant to markets and the ability to push through prior highs is a bullish indicator.

Q3 Winners

- Large domestic stocks regained center stage, led by the healthcare sector. The S&P 500 charged ahead, overtaking small caps as the year-to-date performance leader (Figure 4)
- Japan's Nikkei 225 index gained 8.1%, hitting its highest levels since 1991 on continued easy monetary policies and prior corporate tax cuts that are having a positive effect
- Small cap stocks rolled over hard in September as the U.S. dollar slipped off its peak but were still up 4.7%, riding a wave of optimism from tax cuts and deregulation
- High yield bonds were up 2.4% on low defaults, lower issuance and global demand for yield

Q3 Losers

- Emerging markets were down 0.9% in the third quarter, still leaking from "risk-off" sentiment from higher U.S. rates
- Long U.S. Treasury bonds sank 3% as U.S. interest rates climbed higher, with the 10-year Treasury yield rising above 3% on stronger U.S. growth

Figure 4. Broad Global Diversification Works Best over the Long Term

Index	Sept 2018	QTD	YTD	3 years	5 years	10 years	15 years	20 years
Equity								
S&P 500	0.6	7.7	10.6	17.3	13.9	12.0	9.7	7.4
S&P Midcap	-1.1	3.9	7.5	15.7	11.9	12.5	11.2	11.4
S&P Smallcap	-3.2	4.7	14.5	19.4	13.3	12.9	11.9	11.4
Global REITs	-2.0	-0.2	0.8	7.2	6.3	6.9	8.8	9.4
EAFE	0.9	1.4	-1.0	9.8	4.9	5.9	7.3	5.6
Emerging Mkts	-0.5	-0.9	-7.4	12.8	4.0	5.8	10.0	10.2
Average	-0.9	2.8	4.2	13.7	9.1	9.3	9.8	9.3
Fixed Income								
Corporate	-0.4	1.0	-2.3	3.1	3.5	6.4	4.7	5.3
U.S. Treasury 20+	-3.1	-3.0	-5.9	0.8	4.8	5.5	5.8	5.9
Global Aggregate	-0.9	-0.9	-2.4	2.0	0.8	2.9	3.5	3.9
High Yield	0.6	2.4	2.6	8.1	5.5	9.5	7.7	6.9
Average	-0.9	-0.1	-2.0	3.5	3.7	6.0	5.4	5.5
Overall Average	-0.9	1.6	1.7	9.6	6.9	8.0	8.1	7.7

Source: FactSet, FTSE NAREIT, Voya Investment Management. The Overall Average model allocation includes 10 asset classes, equally weighted: S&P 500, S&P 400 Midcap, S&P 600 Smallcap, MSCI U.S. REIT Index/FTSE EPRA REIT Index, MSCI EAFE Index, MSCI BRIC Index, Bloomberg Barclays U.S. Corporate Bonds, Bloomberg Barclays U.S. Treasury Bonds, Bloomberg Barclays Global Aggregate Bonds, Bloomberg Barclays U.S. High Yield Bonds. Returns are annualized for periods longer than one year. **Past performance is no guarantee of future results. Investors cannot invest in an index.**

Conclusion

It has been ten years since the dark days of the 2008 credit crisis; with the global banking system now regularly stress-tested, the Fed funds rate back to 2.25% from zero and a pronounced switch from government-led stimulus to the most pro-business economic backdrop in 30 years. This has sparked capital investment, which has triggered higher economic growth, enhanced productivity, labor gains, consumer confidence and all-time high corporate profits.

Commensurate with this economic boom are rising interest rates. The Federal Reserve intends to continue raising rates, though in a measured way. This will certainly create market volatility, but in light of the progress since the “Great Credit Crisis,” this seems like a good problem to have. It is now up to investors to apply the wisdom gained from the last crisis — have a plan, diversify, do not panic. It is time to turn off the sad songs, put away the chocolate and make friends with a market that keeps moving on.

Diversification does not guarantee a profit or ensure against loss

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