Voya Global Perspectives

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Executive Summary

- Economic growth was unleashed in the first quarter – in the United States, China and Europe
- Markets also were unleashed and volatility spiked on fears of inflation, tariffs and technology companies
- Tax cuts are a game changer which is not fully priced into corporate earnings
- Geopolitical risk has fallen with saber rattling replaced by a surge in diplomacy
- Global diversification is working with seemingly riskier assets ending the first quarter positively

The Economy and Markets Unleashed in 2018

Economic growth was unleashed in the first quarter, not just in the U.S. but also in Europe and China: the "Big Three." Growth across the board in employment, manufacturing and business confidence either notched near or surpassed record highs. The markets were unleashed too, but in an erratic and unpredictable way. Markets shot out of a cannon in January; then in an about face, fell off a cliff into correction territory on fears of inflation, tariffs and volatility in the technology sector.

Wait a minute. U.S. economic gross domestic product (GDP) is at an all-time high, with annual growth accelerating into the three-percent range; corporate earnings also are at record highs and accelerating; Europe, of all regions, outgrew the U.S. in 2017. So if that sounds like not just good but astounding news, then what is going on with the markets?

What goes up sometimes comes crashing down. The second quarter began ugly, with the S&P 500's worst start in 89 years — unleashed, as it were, might not be so good for the markets. It also might just be an artifact of what happens when the top ten stocks in the S&P 500, mostly mega-cap tech names that make up nearly one quarter of the index, are the chosen ones to take a hit. The mighty fall and apparently, it is true that "trees don't grow to the sky," even in the Amazon jungle.

Freedom from Central Bank Intervention

The dramatic increase in economic growth, spurred, we believe, by free-market capitalism, also comes with the freeing of the markets from the Federal Reserve "put." Not every market participant is happy to see it reined in. The Fed "put" refers to the exceptional market interference — with catchy names like QE1, QE2 and QE3 — that the Fed until recently felt was necessary whenever markets dared to drop more than the Fed's comfort zone. The Fed popularized such interference and gave it credibility, and now almost every central bank practices it.

The Fed "put" is a relic of the past. There is no backstop now, and markets are struggling with the freedom to fail. Volatility as measured by the VIX is back to its historical norm of 20 percent, twice what it was in 2016. "Normal" is back too, however, and that is good news because it means the Great Recession is now fully in the rear-view mirror.

Freedom from Geopolitical Risk — Mostly

Yes, a lot of saber rattling from North Korea, but in a few weeks Kim Jong-Un and Donald Trump will be having a Kumbaya moment. Saudi Arabia's crown prince Mohammed bin Salman, son of King Salman, is on a whirlwind tour of Washington DC, New York City, Hollywood and Silicon Valley, meeting with our political elite along with industry and Hollywood icons. Out on the town with Saudi Arabia, when was the last time that happened?

If you were not paying attention late last year, Arab and Kurdish militias, backed by U.S. Special Forces, dealt ISIS' capital city Raqqa in Syria, aka "Caliphate," a crushing blow. In other words, ISIS effectively has been destroyed. What, no parade?

First Quarter Market Results

Index	March 2018	YTD
Equity		
S&P 500	-2.54	-0.76
S&P Midcap	0.93	-0.77
S&P Smallcap	2.04	0.57
Global REITs	2.48	-4.30
EAFE	-1.70	-1.41
Emerging Mkts	-1.83	1.47
Average	-0.11	-0.87
Fixed Income		
Corporate	0.25	-2.32
U.S. Treasury 20+	3.13	-3.36
Global Aggregate	1.06	1.36
High Yield	-0.60	-0.86
Average	0.96	-1.29
Overall Average	**0.32**	**-1.04**

Source: FactSet, FTSE NAREIT, Voya Investment Management. Market indexes represent the ten asset classes: 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 and Bloomberg Barclays U.S. High Yield Bonds. **Past performance is no guarantee of future results.** One cannot invest in an index.

Capitalism: “Live by the Sword,” “Die by the Sword”

The economy and markets live by the sword of capitalism but can also die by the sword. When government gets in the way by increasing taxes, that is, “trade taxes” in the form of tariffs and duties, it can create confusion and unintended consequences. President Trump’s measures announced against China — tariffs on steel and aluminum (section 232) and protection of intellectual property rights (section 301) — have the potential to be counterproductive, or could be just his approach as described in “The Art of the Deal.”

What sparked market volatility, however, were the Trump tweets, aka thinly veiled threats to specific technology firms; threats which, for now, seem like more noise than substance. The S&P 500 tech sector is still leading performance for the year, despite individual companies being slammed over privacy concerns and the misuse of personal data. During the last decade, big tech firms upped the game in monetizing consumer information and were rewarded handsomely with high revenues and earnings. Monetizing personal data is probably a bad idea, but it would be worse if the government inserted itself into the fray through regulations.

First Quarter Market Results

The S&P ended the quarter down 0.8%, the first quarterly loss since 2015. Technology and consumer discretionary were the only sectors that managed to notch gains. Tech made headlines not for its 3.5% quarterly gain, but for its steep fall from grace after being up almost 12% a mere few weeks before quarter-end. U.S. small-cap stocks bucked the trend and were up 0.6% for the first quarter, due in part to less direct exposure to international sales threatened by proposed tariffs, but also because of pro-growth policies. Emerging markets also climbed higher in Q1, up 1.5% on accelerating global industrial growth and strong corporate profits. Stocks in Europe and Japan fell in the face of stronger currencies and potential trade turmoil, and the MSCI EAFE index was down 1.4% for the quarter. Global real estate investment trust (REITs) were the worst performers, down 4.3% on fears of higher interest rates.

Fixed income yields rose for the quarter but lost early momentum. Investors began to question the sustainability of the global growth story and inflation worries cooled. Long U.S. Treasurys rallied when market volatility spiked but still ended the quarter down 3.4%. High yield stumbled as risk appetite waned, but global bonds gained ground amid the unpredictability and rose 1.4%. Senior loans also gained as rates moved higher and were up 1.5% for the quarter.

The Game Changer

Through all the market fog, the game changer is tax cuts — not only the visible tax on corporate earnings, but also the implied tax cut of deregulation. Bottom-line, the cost of business in the U.S. plummeted swiftly and unexpectedly. So swiftly, in fact, that not only is it not priced into the market, but the shock waves it is creating around the world might take investors years to appreciate fully.

The generosity of the cuts caught U.S. businesses off guard, and they are scrambling to come up with a game changing response that takes full advantage of the unexpected bonus. The immediate impact is a big boost to mergers and acquisitions, the quickest way to spend. What’s more, capital expenditures, hiring and wage gains are expected to ramp up over 2018. The notion that tax cuts are priced into the market is patently false.

Fundamental Sunshine

Investors may be lost in the fog but economic and market fundamentals are not:

- Three quarters of ~3% GDP indicate 2% normal was not normal
- Corporate earnings were 15% in the final quarter of 2017. They are consistently being revised up, not down, and are expected to increase 18% in 2018
- Europe expects 11% earnings growth in 2018, emerging markets expect 16.6%

Reported fourth quarter earnings growth for S&P 500 companies is 15%.

Sector	Reported		Earnings Growth			Earnings Surprise		
	Actual	Total	Percent	Positive	Negative	Percent	Positive	Negative
Energy	32	32	105%	18	4	-13%	20	10
Materials	25	25	44%	22	2	11%	20	2
Information Technology	68	68	23%	56	10	6%	57	7
Financials	67	65	13%	46	19	5%	49	13
Telecommunication Services	3	4	12%	2	1	8%	1	2
Utilities	28	28	10%	21	6	-4%	19	8
Consumer Discretionary	84	83	9%	50	33	9%	61	15
Health Care	62	62	7%	45	16	4%	49	6
Industrials	69	68	7%	51	18	6%	54	12
Consumer Staples	34	34	7%	24	10	2%	22	8
Real Estate	33	33	5%	24	9	1%	15	9
S&P 500	**505**	**505**	**15%**	**359**	**128**	**4%**	**367**	**92**

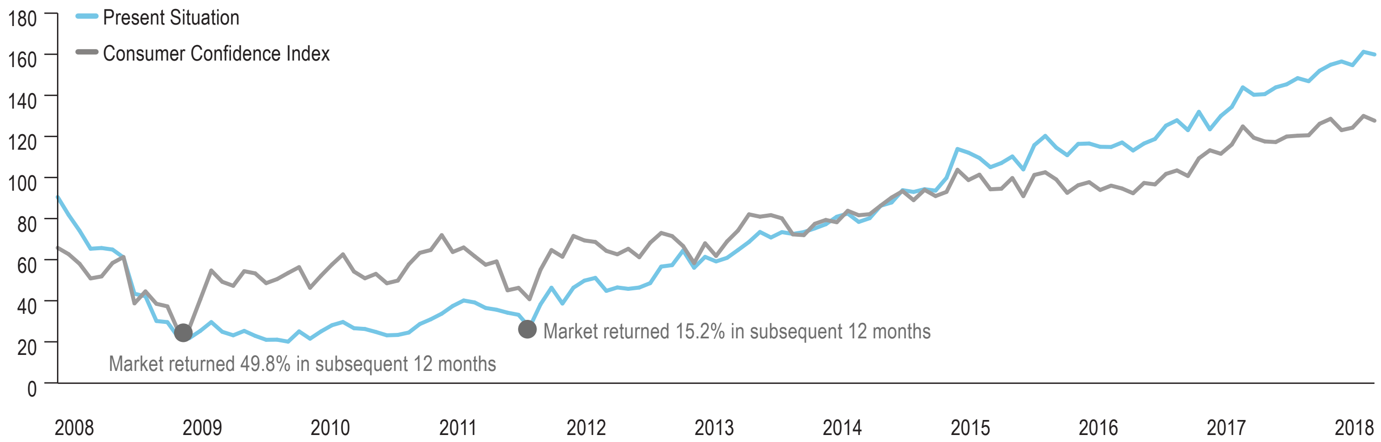
Source: FactSet. Note: Earnings growth is the percentage change in earnings per share compared to one year ago. Earnings surprise percent is the share-weighted average of the ratio of actual company earnings vs. the consensus estimates. **Past performance is no guarantee of future results.** Indices are unmanaged and not available for direct investment.

- Valuations are at the 20-year average P/E multiple of 15.9 times earnings
- The yield curve is upward sloping, not inverted as it was in mid-2007
- All components of the ISM Manufacturing index are firmly expansionary, unlike 2007 when new orders were already contracting
- Fed policy rates and other global central banks are still accommodative

Conclusion

Long-term investors should pay attention to the most positive economic environment in 30 years; unlikely friendships developing with Saudi Arabia, Israel and the U.S.; and corporate earnings accelerating from all-time highs. Do not pay attention to day-to-day prices, political drama out of Washington or name-calling between the tech giants. In our view, this is a time when a broadly diversified portfolio, as near as the U.S. and as far away as the emerging markets, potentially can lower risk and increase return.

U.S. consumer confidence hit a 30-year high on hopes for pro-growth economic policy. Consumer confidence is typically a lagging indicator.



Source: The Conference Board, FactSet. Composite series: index numbers, 1985=100. Note: Subsequent 12-month market returns are based on the S&P 500 Index total return. **Past performance is no guarantee of future results.** Indices are unmanaged and not available for direct investment.

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