Commentary | 1Q25

Voya Solution Portfolios℠ (Target Date)

The Target Date Choice to Help Keep Retirement Goals on Track

Strategy overview

These Portfolios are only offered as an investment option within variable products and retirement programs.

Key takeaways

- U.S. stocks fell due to policy uncertainty and artificial intelligence (AI) spending concerns. Overseas, international equities gained, especially in Europe and China, driven by economic improvements and policy support. Despite volatility, the U.S. economy remains strong but faces risks from new tariffs, highlighting the need for portfolio diversification.
- The Trump administration's trade policies and legal battles have created uncertainty, leading to cautious corporate spending and a decline in consumer confidence, slowing economic growth. Despite this, the U.S. economy remains strong with low unemployment, and we favor U.S. equities for potential earnings growth. In fixed income, we remain neutral on U.S. investment-grade (IG) credit, expecting yields to decline if economic growth worsens, providing a hedge against equity risk.
- The Portfolios posted mixed absolute and positive relative returns for the period, outperforming their strategic allocation benchmarks on a net asset value (NAV) basis.

Market review

U.S. stocks fell during the quarter, as policy uncertainty and warnings of a pullback in AI data center spending dampened investor sentiment. The energy and healthcare sectors led, while the consumer discretionary and technology sectors lagged. Large caps held up better than small caps, while value stocks outpaced growth. In contrast, U.S. bonds rallied driven by growing concerns over economic growth, leading to a flight to safety.

Overseas results were better, as international developed and emerging market (EM) equities posted gains. Europe benefitted from improving economic data, falling inflation and growing expectations of policy support from the European Central Bank (ECB) and German government spending. Additionally, the U.S. dollar fell, boosting returns on foreign assets. China also performed well, as breakthroughs in AI, government stimulus measures and improved economic data boosted investor confidence.

Despite significant market volatility and policy shifts, the U.S. economy enters a new paradigm with a healthy starting point. The labor market remains solid, inflation is manageable and companies continue to post impressive earnings. However, the outlook is clouded by new tariffs and the uncertainty of their final levels, making it challenging for companies to navigate the ongoing trade war and operate effectively. In the near term, tariffs may slow growth, boost inflation and erode profits. In this environment, forecasting becomes more difficult, and it is important to diversify portfolios to perform under multiple outcomes.

Outlook

The Trump administration's aggressive trade policies and ongoing legal battles over executive orders have created a challenging environment for businesses and consumers. The resultant uncertainty has led to more cautious corporate spending and hiring, and a decline in consumer confidence. Economic growth has already slowed, and inflation progress has been limited, raising concerns about potential stagflation.

However, the U.S. economy enters this period of tumult from a position of strength with an unemployment rate near historic lows, which should help it weather this transition. Despite the correction, we continue to favor U.S. equities due to expectations that they will protect profit margins despite rising input costs and deliver earnings growth over the next six to 12 months. Furthermore, high-quality companies' valuations have been repriced and could recover with any renegotiated trade deals, deregulation or progress on tax cuts. While earnings downgrades are possible, we think they will be short lived.

The shift in Europe, particularly Germany's increased defense and infrastructure spending, has sparked a rally. However, we question if this defense spending can translate into productivity enhancing output. Europe's demographic challenges and regulatory issues remain significant obstacles. As a result, portfolios remain neutral on international equities. We see EMs, particularly China, as the most exposed to adverse changes in U.S. trade policy. China has already responded with retaliatory tariffs and can inflict significant damage to the United States. But the state of the domestic economy constrains them from unleashing all available firepower. Despite record low interest rates and yields, credit growth is meager, their property sector remains over leveraged and consumer spending is weak. While we expect authorities will unveil fiscal stimulus to offset U.S. tariffs, they remain underweight until there is tangible action.

In fixed income, portfolios remain overweight U.S. IG credit, which offer decent yields and portfolio stability, as U.S. corporations are generally in a strong financial position. Although higher inflation could increase rates, we think yields will decline if there is a material deterioration in economic growth, providing a hedge against equity risk. Our strategy continues to favor shorter-dated bond maturities, providing us with a more precise exposure to the U.S. Federal Reserve's actions. This approach is particularly prudent given the current liquidity challenges faced by longer-dated treasuries, which we believe are more susceptible to sell-offs in the event of rising budget deficits.

Positioning

At the beginning of the period Portfolios held modest tactical equity underweights and fixed income overweights relative to their strategic allocation benchmarks. Portfolios were also tactically overweight U.S. mid-cap equities, EM equities and short-term bonds and underweight in U.S. large-cap and small-cap stocks. As part of its annual review toward the end of February, the Portfolios enacted their glide downs, leading to lower equity weights in the 2050–2025 vintages. At the same time, the Portfolios' strategic asset allocations were reset, with all tactical positions at the beginning of the period being subsumed into the revised strategic asset allocation, thereby becoming longer-term views.

Additionally, there were several tactical trades implemented during the period. In January, we extended duration in far-dated vintages by adding 5-year U.S. Treasuries funded by 3-month bills to cover an underweight position. Both fundamental and technical models suggested that rates were at an attractive entry point, and this move also served as a hedge against growth risks in the face of policy uncertainty. In February, we increased our exposure to U.S. large cap equities by selling fixed income, as we saw a durable earnings cycle and believed that much of the tariff noise had already been factored into valuations, improving the near-term risk and reward profile. We also added the Health Care Select SPDR ETF and decreased core fixed income. The healthcare sector has been trading at a significant valuation discount, but higher-frequency fundamental factors have improved. We believe this sector can serve both a defensive role due to its stable earnings and an offensive role as it rerates with a stronger fundamental outlook and potential margin benefits from AI adoption. In March, we increased our exposure to small-cap equities and decreased short-term bonds, as the underperformance of U.S. equities and recession risks appeared exaggerated.

Overall, Portfolios continue to maintain a balanced posture between equity and fixed income, with overweights to U.S. large cap, U.S. mid cap and core IG bonds and underweights to U.S. small cap, international equites and international bonds.

Performance

The Voya Solution Portfolios' primary performance objective is to outperform its strategic allocation benchmark over the long-term through tactical asset allocation, i.e., deviating from the composite benchmark over the short and medium-term and active manager selection. The benchmark return is the weighted average return of indices that represent asset classes included in the strategic allocation benchmark. Index returns are gross of all fees. The Portfolios are generally rebalanced monthly and the strategic asset allocations are updated annually to reflect changes to our capital market assumptions. In the first quarter of 2025, Portfolios' outperformed their strategic allocation benchmarks. Tactical asset allocation and manager selection both contributed.

Tactical asset allocation had a positive impact on performance during the period. Portfolios' tactical underweight to U.S. large caps was the main contributor, as U.S. stocks declined due to concerns that tariffs would lead to slower economic growth and higher inflation. Fears that the Trump administration's policies might end exceptional U.S. stock performance led to a rotation into cheaper international stocks, including China and Brazil, which produced double-digit returns and helped the Portfolios tactical overweight to emerging market equities. The tactical trade to extend duration in far-dated vintages was also additive, as rates fell during the quarter.

Underlying managers' relative results were positive across the Portfolios. Active strategies that contributed most to excess returns in the quarter were Voya Small Company Fund, VY T. Rowe Price Capital Appreciation and Voya Multi-Manager Mid Cap Value. The biggest detractors in the quarter were VY T. Rowe Price Divers Mid Cap Growth, Voya Multi-Manager International Equity and VY Brandywine Global Bond Portfolio.

Principal Risks: All investing involves risks of fluctuating prices and the uncertainties of rates of return and yield inherent in investing. You could lose money on your investment and any of the following risks, among others, could affect investment performance. The following principal risks are presented in alphabetical order which does not imply order of importance or likelihood: Affiliated Underlying Funds; Asset Allocation; Commodities; Company; Credit; Credit Default Swaps; Currency; Derivative Instruments; Environmental, Social, and Governance (Funds-of-Funds); Floating Rate Loans; Foreign (Non-U.S.) Investments/ Developing and Emerging Markets; Growth Investing; High-Yield Securities; Index Strategy (Funds-of-Funds); Interest in Loans; Interest Rate; Investment Model; Liquidity; Managed Payment; Market; Market Capitalization; Market Disruption and Geopolitical; Prepayment and Extension; Real Estate Companies and Real Estate Investment Trusts; Underlying Funds; Value Investing. **Investors should consult the Fund's Prospectus and Statement of Additional Information for a more detailed discussion of the Fund's risks.**

Risks specific to Managed Payment: The Fund is expected to make monthly payments under its Managed Payment Policy regardless of the Fund's investment performance. Because these payments will be made from Fund assets, the Fund's monthly payments may reduce the amount of assets available for investment by the Fund. It is possible for the Fund to suffer substantial investment losses and simultaneously experience additional asset reductions as a result of its payments to shareholders under the Managed Payment Policy. The Fund may, under its Managed Payment Policy, return capital to shareholders which will decrease their costs basis in the Fund and will affect the amount of any capital gain or loss that shareholders realize when selling or exchanging their Fund shares.

Stocks are more volatile than bonds, and portfolios with a higher concentration of stocks are more likely to experience greater fluctuations in value than portfolios with a higher concentration in bonds. Foreign stocks and small and mid cap stocks may be more volatile than large cap stocks. Investing in bonds also entails credit risk and interest rate risk. Generally, investors with longer timeframes can consider assuming more risk in their investment portfolios. The Voya Solution Portfolios are actively managed and the asset allocation is adjusted over time. The Portfolios may merge with or change to other portfolios over time. Refer to the prospectus for more information about the specific risks of investing in the various assets classes included in the Voya Solution Portfolios.

As with any portfolio, you could lose money on your investment in the Voya Solution Portfolios. Although asset allocation seeks to optimize returns given various levels of risk tolerance, you still may lose money and experience volatility. Market and asset class performance may differ in the future from historical performance and the assumptions used to form the asset allocations for the Voya Target Solution Trust. There is risk that you could achieve better returns in an underlying portfolio or other portfolios representing a single asset class than in the Voya Solution Portfolios.

Important factors to consider when planning for retirement include your expected expenses, sources of income and available assets. Before investing in the Voya Solution Portfolios, weigh your objectives, time horizon and risk tolerance. The Voya Solution Portfolios invest in many underlying portfolios, which are exposed to the risks of different areas of the market. The higher a portfolio's allocation to stocks the greater the portfolio's overall risk. Diversification cannot assure a profit or protect against loss in a declining market.

The share price of the Portfolios normally changes daily based on changes in the value of the securities that the Portfolios hold. The investment strategies used may not produce the intended results. The principal risks of investing in the Portfolios and the circumstances reasonably likely to cause the value of your investment in the Portfolios to decline include: asset allocation risk, credit risk, debt securities risk, equity securities risk, foreign investment risk, growth investing risk, inflation-indexed bonds risk, interest rate risk, market and company risk, real estate risk, REITs risk, U.S. Government securities and obligations risk, derivatives risk and value investing risk. If you would like additional information regarding the risks of the Portfolios' underlying funds, please see "Description of the Investment Objectives, Main Investments and Risks of the Underlying Funds" and the "More Information on Risks" sections of the Prospectus.

The strategy employs a quantitative model to execute the strategy. Data imprecision, software or other technology malfunctions, programming inaccuracies and similar circumstances may impair the performance of these systems, which may negatively affect performance. Furthermore, there can be no assurance that the quantitative models used in managing the strategy will perform as anticipated or enable the strategy to achieve its objective.

Variable annuities and group annuities are long-term investments designed for retirement purposes. If withdrawals are taken prior to age 59½, an IRS 10% premature distribution penalty tax may apply. Money taken from the annuity will be taxed as ordinary income in the year the money is distributed. An annuity does not provide any additional tax deferral benefit, as tax deferral is provided by the plan. Annuities may be subject to additional fees and expenses to which other tax-qualified funding vehicles may not be subject. However, an annuity does provide other features and benefits, such as lifetime income payments and death benefits, which may be valuable to you.

Variable investments, of any kind, are not guaranteed and are subject to investment risk including the possible loss of principal. The investment return and principal value of the security will fluctuate so that when redeemed, it may be worth more or less than the original investment. In addition, there is no guarantee that any variable investment option will meet its stated objective. All guarantees are based on the financial strength and claims paying ability of the issuing insurance company, who is solely responsible for all obligations under its policies.

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The opinions, views and information expressed in this commentary regarding holdings are subject to change without notice. The information provided regarding holdings is not a recommendation to buy or sell any security. Portfolio holdings are fluid and are subject to daily change based on market conditions and other factors.

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