Commentary | 1Q25

Voya Target Retirement Funds

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.

You should consider the investment objectives, risks, and charges and expenses of the variable product and its underlying fund options; or mutual funds offered through a retirement plan, carefully before investing. The prospectuses / prospectus summaries / information booklets contain this and other information, which can be obtained by contacting your local representative or by calling (800) 992-0180. Please read the information carefully before investing.

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 Funds posted mixed absolute and negative relative returns for the period, underperforming their strategic allocation benchmarks on a gross- and net-of-fees 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 6 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 EM, 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 expects authorities will unveil fiscal stimulus to offset U.S. tariffs, they remain underweight until there is tangible action.

In fixed income, portfolios remain overweight to 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, Funds held modest tactical equity underweights and fixed income overweights relative to their strategic allocation benchmarks. Funds were also tactically overweight to U.S. mid-cap equities, EM equities and short-term bonds, and underweight in U.S. large and small cap stocks. As part of its annual review toward the end of February, the Funds enacted their glide downs, leading to lower equity weights in the 2050-2025 vintages. At the same time, the Funds' 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 to reward profile. 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, Funds 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 in U.S. small cap, international equites and international bonds.

During the period, there was one notable manager change. Fidelity 500 Index Fund replaced Nuveen S&P 500 Index Fund. Both investments provide the same exposure, but we decided to replace Fidelity due to its lower net expense ratio.

Performance

The Voya Target Retirement Fund's primary performance objective is to outperform its strategic allocation composite 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 Funds 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, Funds underperformed their strategic allocation benchmarks. Tactical asset allocation was a contributor, but manager selection detracted.

Tactical asset allocation had a positive impact on performance during the period. Funds' tactical underweight in 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 Funds' tactical overweight to EM 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 negative across the Funds. The biggest contributor in the quarter was Voya VACS Series EME Fund. Active strategies that detracted most from excess returns in the quarter were Voya Multi-Manager International Equity and Voya Intermediate Bond.

Principal Risks: There is no guarantee that any investment option will achieve its stated objective. Principal value fluctuates and there is no guarantee of value at any time, including the target date. The target date is the approximate date when investors plan to start withdrawing their money. When their target date is achieved they may have more or less than the original amount invested. For each target-date portfolio, until the day prior to its target date, the Trust will seek to provide total return consistent with an asset allocation targeted at retirement in approximately each Trust's designated target year. On the target date, the Trust's investment objective will be to seek to provide a combination of total return and stability of principal consistent with an asset allocation targeted to retirement.

Stocks are more volatile than bonds, and trusts 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 midcap 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 Target Solution Trusts are actively managed and the asset allocation adjusted over time. The trusts may merge with or change to other trusts over time. Refer to the prospectus for more information about the specific risks of investing in the various assets classes included in the Voya Target Solution Trusts.

As with any portfolio, you could lose money on your investment in the Voya Target Solution Trust. 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 Target Solution Trust.

Important factors to consider when planning for retirement include your expected expenses, sources of income and available assets. Before investing in the Voya Target Solution Trust, weigh your objectives, time horizon and risk tolerance. The Voya Target Solutions Trust invests 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.

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The Fund discussed may be available to you as part of your employer sponsored retirement plan. There may be additional plan level fees resulting in personal performance to vary from stated performance. Please call your benefits office for more information.

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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