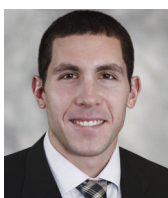


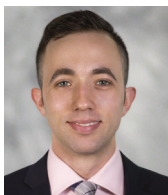
# Asset Allocation Views



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## Life After Liftoff

Despite the long-awaited Federal Reserve hike and announcements of new stimulus measures by the European Central Bank and Bank of Japan, global policy makers continue to leave us wanting more. We move into 2016 with questions about the pace of hikes in the U.S. and the likelihood of additional easing to meet inflation targets in Europe and Japan, while keeping a close eye on downward pressure on commodities and high yield markets.

Current Tactical Asset Allocation				
	Benchmark (%)	Recommended Allocation (%)		Relative to Previous Allocation
Stocks	65.0	66.0	Overweight	Unchanged
Alternative Asset Classes	10.0	10.0	Neutral	Unchanged
Bonds	25.0	24.0	Underweight	Unchanged
Cash	0.0	0.0	Neutral	Unchanged
Allocation Within Asset Classes				
Domestic Stocks	40.0	41.0	Overweight	Unchanged
Large-Cap Stocks	32.0	33.0	Overweight	Unchanged
Large-Cap Growth	16.0	16.5	Overweight	Unchanged
Large-Cap Value	16.0	16.5	Overweight	Unchanged
Mid-Cap Stocks	5.0	5.0	Neutral	Unchanged
Small-Cap Stocks	3.0	3.0	Neutral	Unchanged
International Stocks	25.0	25.0	Neutral	Unchanged
EAFE Stocks	20.0	20.0	Neutral	Unchanged
EAFE Growth	10.0	10.0	Neutral	Unchanged
EAFE Value	10.0	10.0	Neutral	Unchanged
Emerging Market Stocks	5.0	5.0	Neutral	Unchanged
Alternative Asset Classes	10.0	10.0	Neutral	Unchanged
Domestic REITs	2.0	2.0	Neutral	Unchanged
International REITs	2.0	2.0	Neutral	Unchanged
Commodities	2.0	2.0	Neutral	Unchanged
Hedge Fund Beta	4.0	4.0	Neutral	Unchanged
Bonds	25.0	24.0	Underweight	Unchanged
Core U.S. Bonds	14.0	8.0	Underweight	Unchanged
Global Bonds	4.0	4.0	Neutral	Unchanged
High Yield	3.0	8.0	Overweight	Unchanged
TIPS	4.0	4.0	Neutral	Unchanged
T-Bills	0.0	0.0	Neutral	Unchanged

The Model Portfolio reflects the research and opinions of the Multi-Asset Strategies and Solutions group at Voya Investment Management. Incorporating our assessment of macroeconomic conditions and the relative attractiveness of global capital markets, the Model Portfolio expresses both our long-term benchmark asset allocation as well as recommended tactical allocations intended to capture shorter-term opportunities.

The FOMC finally increased the target range of the federal funds rate by 25 basis points at its December meeting. The move was much anticipated, with futures markets pricing in a nearly 80% probability of a hike the day before the announcement. In the weeks leading up to the meeting we saw yield curve flattening, U.S. dollar strength and gold weakness. Aside from a sharp 15% drop in the CBOE Volatility Index (VIX), markets largely avoided any knee-jerk reactions to the hike, with the S&P 500 up 1.5% and domestic yield curves slightly bear flattening. The FOMC statement continued to emphasize a “gradual” pace of interest rate adjustment, dependent on how the economy and inflation progresses. As of writing, the market-implied probability of the fed funds rate hitting the FOMC’s year-end 2016 forecast of 1.375% was under 10%, implying major skepticism. While near-term volatility has subsided, the FOMC’s insistence on “data dependency” with respect to future hikes may continue to cause uncertainty as we move further into the tightening cycle and could be a headwind for risk assets.

The ECB and BoJ both largely disappointed with recent actions. While the ECB eased at its December meeting, its 10 basis point cut in the deposit rate and a six-month extension to the current asset-purchase program underwhelmed markets, sending the euro down almost 3% against the dollar. The BoJ announced “supplementary” measures for its stimulus program, extending the average maturity

of its government bond purchases to 12 years from ten and initiating the purchase of ¥300 billion in exchange-traded funds; however, the overall pace of asset purchases remained unchanged. Governor Kuroda insisted that the measures were not additional easing but rather were aimed at bolstering the sustainability of the current program. The TOPIX initially reacted with a 2% jump, but ultimately ended 1.8% down, after investors ascertained that the size of the new ETF purchases is but a small portion of the overall program. In order to meet inflation targets, both the ECB and BoJ may need to consider further easing in early 2016.

Commodities and high yield markets continue to cause concerns about global growth for investors. Oil recently fell below \$35 a barrel to near six-year lows. Between OPEC’s recent abandonment of output limits, expected new supply from Iran and the U.S. allowing crude exports for the first time in 40 years, the crude supply glut may persist well into 2016 and keep a lid on prices. In recent weeks, major mining companies responded to similar price pressures in industrial metals by guiding capital expenditures lower and initiating dividend cuts. With the Fed now in a tightening cycle, a stronger dollar may contribute to further weakness in commodities. High yield spreads have widened to levels not seen since 2011, bringing with them news of fund liquidations and major losses in popular high yield ETFs.

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