Q2 2020 | Putnam Retirement Advantage Trusts Q&A

Market resilience, recession, and a second wave

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Equity and bond markets prove resilient even as COVID-19 takes a toll on economic growth.

Risks on the horizon include growth, corporate earnings, and a second wave of the virus.

We will continue to take a tactical approach and adjust the fund's investments as needed.

How were market conditions in the second quarter?

Global financial markets proved to be surprisingly resilient during the second quarter. The coronavirus pandemic and the collapse in oil prices had sent equity and fixed-income markets into a tailspin during the first few months of the year. Bouncing from their lows in March, the S&P 500 Index, a broad measure of stocks, rose 20.54% and the MSCI World Index (ND) gained 19.36% during the period. The market's resilience has also benefited bondholders. The rate-sensitive Bloomberg Barclays U.S. Aggregate Bond Index advanced 2.90% during the quarter.

Investors, however, are bracing for a global recession and a second wave of the coronavirus outbreak. A flight-to-safety trade has pushed the yields on U.S. Treasuries lower. The yield on the 10-year Treasury note ended the quarter at 0.66% compared with 0.70% on March 31. The Fed cut interest rates to near zero in mid-March, and unleashed a torrent of bond-buying programs to help stabilize the markets. These actions have increased liquidity in the bond markets and, in turn, stabilized spreads. The U.S. Congress has also pumped trillions of stimulus dollars into the economy. Central banks across Europe, Asia, and other regions have also rolled out COVID-19 stimulus measures.

What were some strategies that affected performance?

All of the Retirement Advantage Funds had positive returns for the quarter, reflecting global equity market strength. During the quarter, we continued to actively adjust our allocation mix. On balance, the strategies were slightly underweight equity risk and interest-rate risk and overweight credit risk. Overall, these asset allocation decisions detracted a bit. The funds were slightly underweight equity risk entering the period, having benefited significantly in the first quarter from defensive positioning. This underweight was a small detractor early in the second quarter as equity markets rebounded sharply from the lows in late March. Equity risk was moved back to neutral in mid-April. In fixed income, the funds were slightly underweight rate risk and overweight credit risk. Still, neither of these positions had a significant impact on quarterly performance.

Our active implementation decisions added to benchmark-relative performance. Security selection within equities was positive. We saw strength across U.S. large-cap equity strategies in stock selected with both quantitative and fundamental processes adding value. In portfolios further from retirement, we continued to see strong performance from emerging-market equity selection. Opportunistic fixed income, specifically a strategy focused on structured mortgage credit, was also additive, and made back a large portion of first-quarter weakness.

What role did the glide path play in performance?

The glide path of Retirement Advantage strategies is an important feature that distinguishes Putnam from its peers. Our glide path is more aggressive — with a higher stock market weight — than the average for our peer group for funds serving people retiring in the 2050s or 2060s. Our glide path becomes more conservative relative to peers for funds serving investors nearing retirement in the 2020s. As one would expect, portfolios with larger equity allocations, designed for investors further from retirement, delivered the highest quarterly returns.

An important part of our Retirement Advantage philosophy is the emphasis we place on controlling volatility and drawdowns for participants approaching retirement, when balances are largest, time horizons are shortest, and sequence-of-returns risk is the greatest. We were pleased with the downside protection our near-retirement portfolios provided during the first-quarter bear market. As expected, those portfolios did not rebound as strongly in the second quarter. In portfolios further from retirement, where we start with a higher equity allocation than industry average, we saw strong quarterly performance due in large part to the equity market strength described previously.

What is the outlook for the remainder of 2020?

Markets rebounded in the second quarter as governments and central banks introduced very significant stimulus measures to reduce the damage caused by the economic shutdown. However, the biggest risk on the horizon is the impact of a coronavirus resurgence on economic growth, corporate earnings growth, and cash flows. Many investors are wary as numerous uncertainties and challenges remain. In equities, we believe that a second wave may not cause a meaningful pullback because investors are prepared. Typically, bad news must be unexpected in order to have a severe negative impact, and historically, equity markets have tended to shrug off second waves of pandemics.

In corporate credit, both investment-grade and high-yield advanced and spreads tightened, mirroring the strength seen across equity markets. We believe credit markets will continue to improve as the Fed stands as a backstop to spread widening with the purchase of investment-grade corporates. Interest rates remained range bound. Fed Chair Jerome Powell signaled in June that the central bank plans to keep rates near zero for “as long as it takes to provide some relief and stability.” Therefore, we expect short-term rates to remain near record lows this year.

Against this backdrop, we continue to have conviction in our investment strategies based on their strong long-term results. As for asset allocation, we will continue to take a tactical approach, adjusting the fund’s exposure across various markets as conditions warrant. We will continue to monitor equity and fixed-income markets, and add securities when we see more attractive valuation levels.

Putnam Retirement Advantage Trusts

Annualized total return performance as of 6/30/20

Class I	Inception	Last quarter	1 year	3 years	5 years	10 years	Life of fund
Putnam Retirement Advantage Maturity: I	1/3/08	9.16%	4.62%	5.08%	5.34%	6.59%	5.11%
Retirement Advantage Maturity Benchmark	—	8.03	6.23	5.84	5.38	6.14	5.31
Putnam Retirement Advantage 2020: I	1/3/08	9.05	4.68	4.99	4.61	7.39	5.02
Retirement Advantage 2020 Benchmark	—	8.15	6.33	6.05	5.47	7.46	4.98
Putnam Retirement Advantage 2025: I	1/3/08	8.99	4.83	5.43	5.30	8.61	5.45
Retirement Advantage 2025 Benchmark	—	9.42	6.74	6.77	6.45	8.83	5.66
Putnam Retirement Advantage 2030: I	1/3/08	12.47	3.75	5.59	5.68	9.26	5.64
Retirement Advantage 2030 Benchmark	—	12.97	6.11	7.28	7.04	9.63	6.02
Putnam Retirement Advantage 2035: I	1/3/08	14.64	3.16	5.69	5.98	9.79	5.86
Retirement Advantage 2035 Benchmark	—	15.02	5.31	7.36	7.32	10.13	6.21
Putnam Retirement Advantage 2040: I	1/3/08	16.39	2.72	5.71	6.05	10.15	5.90
Retirement Advantage 2040 Benchmark	—	16.55	4.60	7.36	7.47	10.47	6.25
Putnam Retirement Advantage 2045: I	1/3/08	17.42	2.51	5.81	6.12	10.47	5.99
Retirement Advantage 2045 Benchmark	—	17.47	4.40	7.49	7.64	10.83	6.35
Putnam Retirement Advantage 2050: I	1/3/08	18.57	2.34	5.91	6.22	10.75	6.16
Retirement Advantage 2050 Benchmark	—	18.34	4.23	7.62	7.82	11.13	6.51
Putnam Retirement Advantage 2055: I	12/22/10	19.65	2.14	5.98	6.29	—	9.08
Retirement Advantage 2055 Benchmark	—	19.13	4.05	7.72	7.96	—	9.47
Putnam Retirement Advantage 2060: I	2/10/16	20.34	2.00	5.96	—	—	10.98
Retirement Advantage 2060 Benchmark	—	19.66	3.92	7.73	—	—	12.58
S&P 500 Index	—	20.54	7.51	10.73	10.73	13.99	8.57
Bloomberg Barclays U.S. Aggregate Bond Index	—	2.90	8.74	5.32	4.30	3.82	4.33

Returns for periods of less than one year are not annualized.

Current performance may be lower or higher than the quoted past performance, which cannot guarantee future results. Share price, principal value, and return will vary, and you may have a gain or a loss when you sell your shares. Performance assumes reinvestment of distributions and does not account for taxes. Performance data reflect the impact of a 0.50% management fee. In certain cases, your plan's management fee may be higher and your return lower. For the most recent month-end performance, call your plan's toll-free number.

The Retirement Advantage Custom Benchmarks are unmanaged indexes administered by Putnam Management, consisting of various indexes that follow the underlying strategies of the portfolios. The S&P 500 Index is an unmanaged index of common stock performance. The Bloomberg Barclays U.S. Aggregate Bond Index is an unmanaged index of U.S. investment-grade fixed-income securities. The MSCI World Index (ND) is an unmanaged index of equity securities from developed countries. You cannot invest directly in an index.

Each Putnam Retirement Advantage Trust has a different target date indicating when the trust's investors expect to retire and begin withdrawing assets from their account, typically at retirement. The funds are generally weighted more heavily toward more aggressive, higher-risk investments when the target date of the fund is far off, and more conservative, lower-risk investments when the target date of the fund is near. The principal value of the funds is not guaranteed at any time, including the target date.

For informational purposes only. Not an investment recommendation.

The views and opinions expressed are those of the portfolio managers as of June 30, 2020, are subject to change with market conditions, and are not meant as investment advice.

The funds are a collective trust managed and distributed by Putnam Fiduciary Trust Company, a non-depository New Hampshire trust company. However, they are not FDIC insured; they are not a deposit or other obligation of, and are not guaranteed by, Putnam Fiduciary Trust Company or any of its affiliates. The funds are not a mutual fund registered under the Investment Company Act of 1940, and their units are not registered under the Securities Act of 1933. The funds are only available for investment by eligible, qualified retirement plan trusts, as defined in the declaration of trust and participation agreement.

Consider these risks before investing: International investing involves currency, economic, and political risks. Emerging-market securities carry illiquidity and volatility risks. Investments in small and/or midsize companies increase the risk of greater price fluctuations. Lower-rated bonds may offer higher yields in return for more risk. Funds that invest in government securities are not guaranteed. Mortgage-backed securities are subject to prepayment risk and the risk that they may increase in value less when interest rates decline and decline in value more when interest rates rise.

Money market options are not insured or guaranteed by the Federal Deposit Insurance Corporation (FDIC) or any other governmental agency. Although the funds seek to preserve the value of your investment at $1.00 per share, it is possible to lose money by investing in these funds.

Bond investments are subject to interest-rate risk (the risk of bond prices falling if interest rates rise) and credit risk (the risk of an issuer defaulting on interest or principal payments). Interest-rate risk is greater for longer-term bonds, and credit risk is greater for below-investment-grade bonds. Risks associated with derivatives include increased investment exposure (which may be considered leverage) and, in the case of over-the-counter instruments, the potential inability to terminate or sell derivatives positions and the potential failure of the other party to the instrument to meet its obligations. Unlike bonds, funds that invest in bonds have fees and expenses. Our investment techniques, analyses, and judgments may not produce the outcome we intend. The investments we select for the fund may not perform as well as other securities that we do not select for the fund. We, or the fund's other service providers, may experience disruptions or operating errors that could have a negative effect on the fund. You can lose money by investing in the funds. See the fund's offering statement for more information.

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You should carefully consider the investment objective, risks, charges, and expenses of a fund before investing. To request the offering document of the fund, call your financial representative or call Putnam at 1-800-225-1581. You should read the offering document carefully before investing.