Q2 2019 | Putnam Retirement Advantage Funds Q&A

The tide keeps changing for global markets

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Equity markets remain cautious on trade truce and growth.

The 10-year U.S. Treasury yield tumbles to below 2%.

The Fed signals possible rate cut, boosting appetite for risk assets.

What was the market environment during the second quarter?

Global financial markets advanced during the quarter. Investor appetite for risk assets has ebbed and flowed because of the U.S.–China trade rift and growing fears the dispute would worsen a global economic slowdown. At the Group of 20 meeting in June, President Trump and Chinese President Xi Jinping made headway on stabilizing tariffs as they continue to work on long-term trade issues. Stocks and other risky assets enjoyed a brief rally after the announcement of the trade truce. The S&P 500 Index, a broad measure of U.S. stocks, rose 4.30% and the MSCI World Index rallied 4.00% during the period.

The Federal Reserve held interest rates steady during the quarter and signaled a possible cut if the U.S. economic outlook doesn't improve. Earlier this year, the central bank surprised investors by signaling it was done raising interest rates for now. The Fed's shift in monetary policy has lifted investor sentiment and boosted global markets. In Europe, lower growth has spurred the European Central Bank [ECB] toward loosening monetary policy. The ECB has signaled that it could start introducing new stimulus measures, including a reduction in already record low interest rates, to support growth.

Risk-averse investors had also flocked to the safety of government bonds during the quarter. This flight to perceived safe havens saw U.S. Treasury yields tumble. The yield on the benchmark 10-year note — widely used in setting borrowing costs for consumers and businesses worldwide — tumbled to multi-year lows at the end of June 2019. The two-year Treasury yield, which often moves with expectations for Fed policy, fell below 1.8%. The rate-sensitive Bloomberg Barclays U.S. Aggregate Bond Index rose 3.08% during the quarter.

How did Putnam Retirement Advantage Funds perform?

The Retirement Advantage funds had positive returns during the quarter, reflecting positive returns across a variety of asset classes. Strategies close to and further from retirement posted similar returns for the quarter. The strategies, however, underperformed their custom benchmarks because of some weakness in asset allocation and active implementation decisions.

The glide path of Retirement Advantage strategies is an important tool that distinguishes Putnam from its peers. Our glide path starts off more aggressive than the average for our peer group, with a higher equity weight in the early part of the glide path for funds serving people retiring in the 2050s or 2060s. Our glide path becomes more conservative relative to peers for the funds serving investors nearing retirement in the 2020s.

What strategies affected performance?

Performance for the quarter was largely a product of positive returns from stocks and bonds, albeit with some volatility during the past three months. The majority of our positions were held near their respective benchmarks. Across all funds, we held underweight positions in interest-rate risk. These positions detracted from performance as yields moved lower because of concerns about economic growth and expectations for a Fed rate cut. Bond prices rise as yields decline.

Our active implementation decisions and security selections also detracted slightly from relative performance. Our stock selections in U.S. and international-developed markets experienced some weakness, particularly in May. We did see positive contributions from our fixed-income selection strategies and from emerging-market stocks in vintages further from retirement. These helped offset some of the weakness elsewhere.

What is the outlook for the third quarter of 2019?

The global economy has cooled in 2019 as the fallout from the ongoing trade rifts, waning business confidence, and financial market volatility have kept the lid on expansion. The U.S. economy is also likely to expand at a more moderate pace compared with that of 2018. Still unemployment has touched multi-decade lows, inflation remains anchored, and the likelihood of a recession — while higher than a few months ago — remains low.

Fed Chair Jerome Powell in June 2019 said the central bank “will act as appropriate” to sustain U.S. economic expansion, fueling market speculation of a rate cut this year. The Fed dropped its pledge to remain “patient” on rates from its policy statement at the June meeting. The central bank expects 2.1% growth this year, down from the 2.3% it forecast in December 2018. The economy surged in the first quarter of 2019, expanding at a 3.1% annual rate after growing 2.2% in the fourth quarter.

We expect some stock and bond market volatility to persist in 2019. Financial markets will remain cautious because of uncertainties related to the outcome of the U.S.–China trade talks and global growth. The trade truce in itself will not resolve the underlying differences between Beijing and Washington, but it may give officials another chance to reach a permanent accord. Investors are still attempting to gauge the potential fallout from protectionist tariffs on economic growth and corporate profits.

During the quarter, we decreased our exposure to equity, credit risk (high-yield corporate bonds), and interest-rate risk (government bonds). We are currently neutral on equities and commodities relative to the benchmarks. However, we are underweight in credit-sensitive and rate-sensitive fixed-income assets. We have a slightly negative outlook on credit risks. High-yield bond spreads — the difference in yield between two securities — have narrowed and are back to near their tightest point of this cycle. As a result, our quantitative model has become more bearish. In addition, uncertainty surrounding the U.S.–China trade negotiations provide scope for further spread widening.

As for our rates positioning, we believe bond yields will drift higher in 2019 as interest-rate normalization continues in the United States and globally. That is because the real yield on the 10-year Treasury note remains below average and the term premia estimates on the notes are at historically low levels. The term premium is the extra return [a risk premium] that investors demand to hold a long-term bond. In addition, we think interest rates are unattractive because of the very low carry inherent in the asset class due to the flat shape of the yield curve.

Putnam Retirement Advantage Funds

Annualized total return performance as of 6/30/19

Class I	Inception	Last quarter	1 year	3 years	5 years	10 years	Life of fund
Putnam Retirement Advantage Maturity:I	1/3/08	3.13%	6.77%	6.42%	4.65%	8.18%	5.16%
Retirement Advantage Maturity Benchmark	—	3.20	7.78	5.15	4.79	6.64	5.23
Putnam Retirement Advantage 2020:I	1/3/08	3.03	6.32	5.83	4.57	8.49	5.05
Retirement Advantage 2020 Benchmark	—	3.15	7.55	5.97	4.78	8.11	4.86
Putnam Retirement Advantage 2025:I	1/3/08	2.81	4.94	7.48	5.49	9.72	5.50
Retirement Advantage 2025 Benchmark	—	3.23	7.00	7.87	5.79	9.53	5.56
Putnam Retirement Advantage 2030:I	1/3/08	2.78	4.43	8.84	6.14	10.50	5.81
Retirement Advantage 2030 Benchmark	—	3.47	7.28	9.47	6.51	10.43	6.01
Putnam Retirement Advantage 2035:I	1/3/08	2.82	4.03	9.82	6.62	11.07	6.10
Retirement Advantage 2035 Benchmark	—	3.53	7.16	10.51	6.98	11.03	6.28
Putnam Retirement Advantage 2040:I	1/3/08	2.73	3.80	10.28	6.87	11.43	6.18
Retirement Advantage 2040 Benchmark	—	3.59	7.16	11.09	7.31	11.45	6.40
Putnam Retirement Advantage 2045:I	1/3/08	2.82	3.94	10.70	7.06	11.77	6.30
Retirement Advantage 2045 Benchmark	—	3.65	7.14	11.58	7.55	11.84	6.52
Putnam Retirement Advantage 2050:I	1/3/08	2.88	4.04	11.08	7.26	12.05	6.50
Retirement Advantage 2050 Benchmark	—	3.69	7.07	12.05	7.79	12.16	6.71
Putnam Retirement Advantage 2055:I	12/22/10	2.89	4.14	11.40	7.40	—	9.93
Retirement Advantage 2055 Benchmark	—	3.73	7.05	12.44	8.00	—	10.13
Putnam Retirement Advantage 2060:I	2/10/16	2.92	4.17	11.45	—	—	13.78
Retirement Advantage 2060 Benchmark	—	3.76	7.12	12.52	—	—	15.27
S&P 500 Index	—	4.30	10.42	14.19	10.71	14.70	8.67
Bloomberg Barclays U.S. Aggregate Bond Index	—	3.08	7.87	2.31	2.95	3.90	3.95

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. You cannot invest directly in an index.

Each Putnam Retirement Advantage Fund has a different target date indicating when the fund'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, 2019, 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.

Diversification does not guarantee a profit or ensure against loss. It is possible to lose money in a diversified portfolio.

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. 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.