Q3 2021 | Putnam Retirement Advantage Trusts Q&A

Markets take Fed talk on tapering, rates in stride

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Risk assets hang on to gains amid multiple headwinds, including inflation, Covid-19, and tighter policies.

Our outlook on equities is neutral due to higher seasonal volatility, a move past peak earnings growth, and central bank tapering.

We expect upward pressure on bond yields as the Fed gets ready to roll back its stimulus plan.

How were market conditions in the third quarter?

Global equity markets ended the period mixed. Stocks were buoyed by a recovering economy, the lifting of public health restrictions in some countries, and fiscal stimulus. However, risks including higher inflation, likely near-term asset-purchase tapering, China's weaker economy, and the Covid-19 Delta variant percolated through the markets and pulled stocks down from recent highs. For the three-month reporting period, the S&P 500 Index — a broad measure of U.S. stock performance — gained 0.58%. But the MSCI World Index [ND], a broad measure of equity securities from developed countries, dropped 0.01%.

Interest rates fluctuated within a tight range over the last three months, ultimately ending the quarter slightly higher. Rates fell when the Fed called the rise in inflation "transitory" but moved higher when it signaled tapering could begin soon. In late September, the Fed indicated it was ready to scale back asset purchases as soon as November and could lift interest rates as early as next year. The European Central Bank also said it would conduct bond purchases under its emergency program at a "moderately lower pace" over the next three months.

The rate-sensitive Bloomberg U.S. Aggregate Bond Index, a measure of investment-grade [IG] corporate bonds, rose 0.05% for the period. The yield on the benchmark 10-year U.S. Treasury note rose to 1.52% at the end of September from 1.45% at the end of the previous quarter.

What role did the glide path play in performance?

The glide path of Retirement Advantage strategies is an important feature that distinguishes Putnam from our peers. Our glide path is more aggressive early on. It has 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. Given some international and emerging-market equity weakness in the third quarter, longer-dated strategies experienced greater losses than more fixed income-oriented portfolios near retirement.

Longer-dated portfolio losses were a product of higher equity allocations and some equity market underperformance. Shorter-dated strategies still finished lower given negative equity market performance, but a lower allocation to equities meant smaller overall losses.

What investment decisions influenced the funds' performance during the period?

Overall, our asset allocation decisions slightly enhanced benchmark-relative performance. The portfolios benefited most from our equity positioning during the period. The equity position ranged from modestly overweight to overweight relative to the benchmark early on before we moved the position to neutral at the end of August. In fixed income, our modest underweight position to interest-rate risk and modest overweight position to credit risk did not have a material effect on performance. We moved our credit position to neutral at the end of August. An out-of-benchmark long position to commodity risk contributed a tiny gain. We eliminated this position in mid-August.

Active implementation detracted from benchmark-relative performance. Strategic global macroeconomic trades were the primary source of weakness during the period. The portfolios also experienced a slight loss from our fundamental U.S. large-cap growth strategy. These losses were partially offset by small positive contributions from our fundamental U.S. large-cap value, international equity, and opportunistic fixed income strategies. Our quantitative U.S. large-cap equity and international equity strategies were also slightly additive. In quantitative strategies, our team analyzes stock market history to identify characteristics of stocks [factors] that have excess risk-adjusted returns. During the quarter, our momentum and short-interest factors outperformed.

What is your near-term outlook for the markets?

Despite recent volatility caused by concerns around central bank asset-purchase tapering, inflation, and Covid-19 variants, markets have recovered this year. The stimulative monetary and fiscal policy backdrop among the Group of Ten [G10] advanced countries, historically strong earnings, positive economic data, and ample liquidity fueled financial markets. While we remain optimistic about the recovery, we also anticipate more volatility ahead as investors weigh the impacts of a shift in central bank policy and the unlikely chance of further stimulus. The Fed's rate-setting committee indicated in September that it could start to taper its $120 billion in monthly asset purchases as soon as its next scheduled meeting in early November. New projections released at the end of the Fed's two-day policy meeting showed half of 18 officials expect to raise interest rates by the end of 2022.

Given the current environment, our outlook on equities is neutral. This position is supported by a combination of factors including seasonally increased volatility, a move past peak earnings growth, and the expectation for a shift in central bank policy. While we maintain a positive disposition toward equities, we feel risks have become more balanced.

In fixed income, our outlook on credit is also neutral. Given that spreads have been hovering at the tight end of their recent range, and volatility and defaults are extremely low, we expect an uptick in volatility and thus a lower risk-adjusted return as opposed to a substantial widening in spreads. Our outlook on interest-rate sensitive fixed income is slightly bearish, as we believe risks are skewed to higher yields given the expectations for continued economic momentum and inflation spikes. We expect upward pressure on yields as asset-purchase tapering and a shift in Fed rate policy approach. Against this backdrop, we continue to have conviction in our investment strategies based on their strong, long-term results.

Putnam Retirement Advantage Trusts

Annualized total return performance as of 9/30/21

Class I	Inception	Last quarter	1 year	3 years	5 years	10 years	Life of fund
Putnam RA Maturity: I	1/3/08	−0.16%	10.38%	7.68%	7.04%	7.40%	5.69%
Custom RA Maturity Benchmark		0.15	8.36	7.91	6.37	6.38	5.67
Putnam RA 2025: I	1/3/08	−0.26	10.63	6.82	7.58	9.28	5.96
Custom RA 2025 Benchmark		0.07	9.82	8.07	8.17	9.19	6.12
Putnam RA 2030: I	1/3/08	−0.34	17.05	8.49	9.56	10.78	6.68
Custom RA 2030 Benchmark		0.01	16.29	10.30	10.44	10.81	7.02
Putnam RA 2035: I	1/3/08	−0.54	20.61	9.48	10.80	11.74	7.19
Custom RA 2035 Benchmark		−0.17	20.02	11.32	11.68	11.74	7.50
Putnam RA 2040: I	1/3/08	−0.78	23.25	10.27	11.60	12.40	7.46
Custom RA 2040 Benchmark		−0.38	22.84	12.07	12.50	12.42	7.78
Putnam RA 2045: I	1/3/08	−0.89	24.55	10.70	12.09	12.89	7.66
Custom RA 2045 Benchmark		−0.46	24.38	12.50	13.09	12.96	7.99
Putnam RA 2050: I	1/3/08	−0.94	25.82	11.08	12.53	13.33	7.92
Custom RA 2050 Benchmark		−0.51	25.92	12.90	13.65	13.46	8.26
Putnam RA 2055: I	12/22/10	−0.98	26.96	11.43	12.91	13.58	11.16
Custom RA 2055 Benchmark		−0.56	27.39	13.31	14.15	13.77	11.57
Putnam RA 2060: I	2/10/16	−1.05	27.76	11.68	13.11	—	14.79
Custom RA 2060 Benchmark		−0.60	28.49	13.66	14.41	—	16.24
Putnam RA 2065: I	1/5/21	−1.04	—	—	—	—	13.80
Custom RA 2065 Benchmark		−0.61	—	—	—	—	13.07
S&P 500 Index		0.58	30.00	15.99	16.90	16.63	10.53
Bloomberg U.S. Aggregate Bond Index		0.05	−0.90	5.36	2.94	3.01	3.91

Source: Bloomberg Index Services Limited.

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 U.S. Aggregate Bond Index is an unmanaged index of U.S. investment-grade fixed-income securities. The Dow Jones Industrial Average Index (DJIA) is an unmanaged price-weighted index composed of 30 blue-chip stocks. The MSCI EAFE Index (ND) is an unmanaged index of equity securities from developed countries in Western Europe, the Far East, and Australasia. 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 September 30, 2021, 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: If the quantitative models or data that are used in managing an underlying fund prove to be incorrect or incomplete, investment decisions made in reliance on the models or data may not produce the desired results and the fund may realize losses.

Our allocation of assets among permitted asset categories may hurt performance. The value of investments in the underlying funds' portfolios may fall or fail to rise over extended periods of time for a variety of reasons, including general economic, political, or financial market conditions; investor sentiment and market perceptions; government actions; geopolitical events or changes; and factors related to a specific issuer, asset class, geography, industry, or sector. These and other factors may lead to increased volatility and reduced liquidity in the underlying funds' portfolio holdings.

Growth stocks may be more susceptible to earnings disappointments, and value stocks may fail to rebound. Investments in small and/or midsize companies increase the risk of greater price fluctuations. 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). Default risk is generally higher for non-qualified mortgages. Interest-rate risk is generally greater for longer-term bonds, and credit risk is generally greater for below-investment grade bonds. 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, which means that they may increase in value less than other bonds when interest rates decline and decline in value more than other bonds when interest rates rise. The underlying funds may have to invest the proceeds from prepaid investments, including mortgage and asset backed investments, in other investments with less attractive terms and yields. International investing involves currency, economic, and political risks. Emerging-market securities carry illiquidity and volatility risks. REITs are subject to the risk of economic downturns that have an adverse impact on real estate markets. Convertible securities' prices may be adversely affected by underlying common stock price changes. While convertible securities tend to provide higher yields than common stocks, the higher yield may not protect against the risk of loss or mitigate any loss associated with a convertible security's price decline. Convertible securities are subject to credit risk. 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. There is no guarantee that the funds will provide adequate income at and through an investor's retirement.

Our investment techniques, analyses, and judgments may not produce the outcome we intend. The investments we select for the underlying funds' may not perform as well as other securities that we do not select for the underlying funds'. We, or the fund's other service providers, may experience disruptions or operating errors that could have a negative effect on the underlying funds'. 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.

Putnam Retail Management

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