Voya Enhanced Yield Fixed Income SMA

Higher Credit Quality Approach, Selective High Yield Exposure

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Strategy overview

A total return strategy that uses a multi-sector approach with a higher quality posture through the use of Treasury, Agency, and Corporate Credit securities, both Investment Grade and Below, with 1-10 year maturities.

Key takeaways

- The second quarter of 2025 opened with a surge in global trade tensions as the United States implemented sweeping tariffs on a broad range of trading partners.
- For the quarter, the Voya Enhanced Yield Fixed Income SMA outperformed the custom benchmark on a gross-of-fees basis but underperformed on a net-of-fees basis.
- Looking forward, our outlook is shaped by a complex mix of policy shifts, structural labor dynamics, and evolving inflation trends.

Market review

The second quarter of 2025 opened with a surge in global trade tensions as the U.S. implemented sweeping tariffs on a broad range of trading partners. The move branded "Liberation Day," caught markets off guard with tariff rates significantly higher than expected. The tariffs imposed on China stood out since the severity of the levy—along with further escalation and retaliatory measures—effectively erased the economic incentive for U.S.-China trade. Markets reacted swiftly and negatively: equities dropped into correction territory, credit spreads widened sharply—many sectors hit 12-month wides—and U.S. Treasuries, which had been rallying on expectations of slower growth, sold off as investor sentiment toward U.S. assets deteriorated. Just days later, the U.S. administration announced a temporary reprieve, significantly reducing tariff rates to allow for negotiations. This reprieve, set to expire on July 9, 2025, helped stabilize markets. Although uncertainty remained, the easing of trade tensions allowed risk assets to recover gradually through the remainder of the quarter.

In fixed income markets, this uncertainty translated into heightened volatility. Treasury yields initially spiked on the tariff news, then retraced as the reprieve and softer inflation data took hold. Credit markets experienced a sharp widening in spreads early in the quarter, followed by a partial recovery as risk sentiment improved. Investors remained focused on balancing trade uncertainty against the potential for a soft landing.

Overall, the second quarter of 2025 was a study in contrasts: geopolitical shocks met with central bank restraint, economic weakness offset by labor market strength, and inflation easing just as new risks to price stability emerged. As the July 9, 2025, tariff reprieve deadline approaches, markets remain on edge, with the next chapter in trade policy likely to shape the trajectory of both the economy and financial markets in the second half of the year.

Portfolio review

For the quarter, the Voya Enhanced Yield Fixed Income SMA outperformed the custom benchmark on a gross-of-fees basis but underperformed on a net-of-fees basis. The SMA's higher quality focus within high yield (HY) corporates was a positive to relative performance, while sector allocation was a modest detractor given the SMA's underweight in HY bonds.

Outlook

Looking forward, our outlook is shaped by a complex mix of policy shifts, structural labor dynamics, and evolving inflation trends. Corporate investment has slowed in response to trade volatility, and higher import costs are expected to weigh on consumption. However, proposed tax cuts would support household incomes while deregulation efforts should improve business efficiency. As a result, we expect growth to slip below trend in the near term, but stage a gradual rebound further out.

For fixed income investors, elevated yields offer the potential for attractive total returns however, policy uncertainty will continue to drive episodes of volatility. That said, the current administration's sensitivity to bond market reactions should help limit the severity and duration of these disruptions, but we will remain nimble.

Credit markets have largely recovered from the "Liberation Day" shock, with spreads tightening back to levels that are not necessarily screening as cheap. As of quarter-end, investment grade (IG) corporate spreads were just 83 bp, a level that suggests markets are once again pricing in a near-perfect scenario. While corporate fundamental factors remain supportive, spreads at these levels leave little room for error, particularly as it relates to trade or policy risk.

In summary, our outlook is one of cautious optimism. Growth is likely to remain subdued in the near term but should improve as clarity on trade emerges, a more favorable mix of policies are implemented, and productivity gains take hold. Inflation is well off its peak, expectations remain anchored, and the U.S. Federal Reserve is poised to ease policy in response to labor market softening. While credit valuations in corporate sectors appear stretched, the fundamental picture is broadly positive. Navigating this environment will require selectivity, but the backdrop remains supportive.

Read our strategy brief

Returns are benchmarked to a customized blend of 60% Bloomberg Intermediate Gov/Credit Index and 40% Bank of America US High Yield Master II Constrained Index, rebalanced on a monthly basis, which does not incur management fees, transaction costs, or other expenses associated with a composite portfolio. Securities prices used to value the benchmark index for the purposes of calculating total return may or may not differ significantly from those used to value securities held within composite portfolios. Index returns do not reflect fees, brokerage commissions, taxes or other expenses of investing. **Investors cannot invest directly in an index.** Source: Bloomberg Index Services Limited. BLOOMBERG® is a trademark and service mark of Bloomberg Finance L.P. and its affiliates (collectively "Bloomberg"). Bloomberg or Bloomberg's licensors own all proprietary rights in the Bloomberg Indices. Bloomberg does not approve or endorse this material, nor guarantee the accuracy or completeness of any information herein, nor make any warranty, express or implied, as to the results to be obtained therefrom and, to the maximum extent allowed by law, shall not have any liability or responsibility for injury or damages arising in connection therewith. Source: BofA, used with permission. BofA is licensing the BofA indices and related data "as is," makes no warranties regarding same, does not guarantee the suitability, quality, accuracy, timeliness, and/or completeness of the BofA indices or any data included in, related to, or derived therefrom, assumes no liability in connection with their use, and does not sponsor, endorse, or recommend Voya, or any of its products or services.

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The Composite performance information represents the investment results of a group of fully discretionary accounts managed with the investment objective of outperforming the benchmark.

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