Commentary | 2Q24

Voya Global Bond Strategy

Discover a World of Risk-adjusted Opportunities in Global Bond Markets

Strategy overview

Invests in broad global bond sectors including a wide range of debt and derivative securities and currencies.

Key takeaways

- For the quarter ended June 30, 2024, the Voya Global Bond Fund Class I Share outperformed its benchmark, Bloomberg Global Aggregate Bond Index (the Index) on a net asset value (NAV) basis.
- Global bond yields moved higher and prices declined, as uncertainty around U.S. central bank policy meant Treasury yields rose and peaked during the quarter. While the U.S. Federal Reserve held their data dependent stance, the European Central Bank (ECB) delivered a hawkish rate cut.

Portfolio review

For the quarter ended June 30, 2024, the Voya Global Bond Fund Class I Share outperformed the Index on a NAV basis. Sector allocation decisions drove performance, while duration and yield curve positioning as well as currency allocations were detractors for the period.

During the second quarter, there was divergence in monetary policy across major global central banks. Global bond yields moved higher and prices declined, as uncertainty around U.S. central bank policy meant Treasury yields rose and peaked intra-quarter as Fed held their data dependent stance while the ECB delivered a hawkish rate cut. The second quarter got off to a hotter start in the United States as inflation and labor market data demonstrated resilience. This meant Treasury rates rose as investors reassessed the timing of Fed rate cuts. In the latter part of the quarter, however, bond prices recovered as data on the inflation front delivered softer prints and the labor market likely fully rebalanced. In June, while the Fed held rates steady during the Federal Open Market Committee meeting, the ECB delivered their first rate cut, although did so amidst inflation and growth concerns. The French snap election added to the noise and rates sold off. The Bank of Canada (BOC) and the Swiss National Bank (SNB) also reduced their policy rates on better confidence that inflation is moving towards their target. An environment where the Fed held rates steady while other central banks began to their cutting cycle, while the Bank of Japan (BOJ) were reluctant to hike rates again meant interest rate differential continued to support the dollar.

The quarter began with a significant upside surprise in the March Non-Farm Payroll (NFP) report, contradicting other employment indicators such as Institute for Supply Management (ISM) Employment and National Federation of Independent Business (NFIB) hiring intentions. Notably, job growth was primarily concentrated in part-time employment, potentially masking broader weakness that was evidenced by a decline in full-time employment that had been ongoing since peaking in May 2023. One month later, NFP missed to the downside, which helped to quell reflation fears but was still strong enough to avoid igniting concerns of a recession. Altogether, the trend over the quarter signaled a return to a more "balanced" labor market, with the pace of wage gains slowing, the quit rate declining, and the unemployment rate ticking up modestly off extreme lows.

Similarly, consumer spending, which has led growth over the last several quarters, showed signs of softening, with modest growth numbers reported in both personal spending and retail sales data. Rising credit card delinquencies and a low savings rate further underscored the financial challenges facing some consumers.

The disinflationary narrative, which came into question in 1Q24 following a series of upside surprises, regained credibility in 2Q24 as the data came in mostly in line with expectations. That said, Fed officials maintained a cautious stance, and emphasized that no immediate rate cuts were necessary. The Fed's updated dot plot in mid-June revealed a relatively hawkish stance, projecting only one rate cut through the end of the year, compared to three in the March projection.

Markets, like the Fed, were very data dependent. With better growth data reported at the beginning of the quarter, spreads continued to trade at tight levels and credit sectors posted solid excess returns. Interest rates also responding by continuing the selloff that was sparked by the hot inflation data in 1Q24, but ultimately finished the quarter only slightly higher.

Corporate credit sectors were further supported by 1Q24 earnings, which again exceeded analyst expectations. While leverage and coverage ratios continued to slowly deteriorate, aggregate fundamental factors remained acceptable, and ratings trends continued to be positive overall. From a technical standpoint, both investment grade (IG) and high yield (HY) sectors were well bid due to higher all-in yields, despite tight spread levels.

Securitized credit sectors also benefited from the positive macro backdrop. For example, commercial mortgage-backed securities (CMBS) managed to outperform as easier financial conditions and improved primary market activity has allowed for an easier path to refinance existing loans. Meanwhile on the residential side, primary activity remains subdued, however so did delinquencies and defaults as the employment picture still remains favorable along with borrowers having locked-in low mortgage rates during the covid era. Asset-backed securities (ABS) spreads also managed to tighten, despite the continued increase in delinquencies across subprime borrowers. Collateralized loan obligations (CLO) represented one of the best sources of excess returns on the quarter, likely due to the sectors floating rate attribute in an environment of still elevated rates.

Sector allocation decisions drove performance, while duration and yield curve positioning as well as currency allocations were detractors for the period. The strongest contributions were sourced from securitized allocations, as positioning in securitized credit spanning agency mortgages, specifically collateralized mortgage obligations (CMO), including interest-only tranches faring well in a low prepayment environment, CMBS, non-agency residential mortgage-backed securities (RMBS) and ABS that included high yields CLOs all contributed. Allocations to corporate sectors, both IG and HY also added albeit at a smaller level. Our exposure to local emerging markets (EM) detracted over the quarter. We actively added risk across spread corporate and securitized sectors, with the most notable increases being in IG corporates, and CMBS. Duration was added when Fed policy uncertainty caused rates to rise but reduced as rates rallied on softer data in the latter part of the quarter.

Current strategy and outlook

From a fundamental perspective, the outlook has undoubtedly improved. Inflation has managed to decline without significantly impacting growth, and labor markets have managed to rebalance without a meaningful uptick in unemployment. We believe inflation will continue to trend lower, as the lagged impact of declining rent prices will take hold in the coming months, and overcapacity in China will keep goods prices in deflation. We expect growth to remain positive but will continue at a more measured pace. Consumption growth will likely slow due to slowing wage gains and higher prices but will remain positive as the wealth effect (stock prices and home values at all-time highs) continues to be supportive. Similarly, high financing costs will likely curb private investment, however this will be at least partially offset by investment in artificial intelligence technology. Growth in Europe and China have bottomed and will contribute to global growth, driven by local consumption and trade respectively. This will offset the slowdown in the U.S.

Stress on lower income consumers is, unfortunately, a key outlier in this otherwise positive dynamic. While not a systemic risk, we do think this will allow the Fed to cut rates prior to the election. That said, with the labor market still intact and consumer spending still supportive in aggregate, along with inflation still above 2%, we believe the extent to which the Fed will cut will be limited and the pace will be slow.

While the macro backdrop looks favorable, valuations are rich, for example, the IG corporate index carried a spread of less the 100 basis points (bp) and HY was slightly above 300 bp. Securitized credit sectors appear more attractive from a relative value perspective, as such, we continue to favor an allocation to these sectors, however we are still avoiding the most vulnerable areas (subprime consumer ABS, non-qualified mortgage RMBS, subordinated CLOs). Meanwhile, duration-oriented risks are poised to benefit from the implementation of central bank policy and the resulting decrease in rate volatility. While strong fundamental factors will continue to support tight spreads, periods of volatility spurred by expectations of lower growth and post-election policies changes will provide opportunities to episodically add risk.

The Bloomberg Global Aggregate Index is an unmanaged index that provides a broad-based measure of the global investment-grade fixed-rate debt markets. The Index does not reflect fees, brokerage commissions, taxes or other expenses of investing. **Investors cannot invest directly in an index.**

Principal Risks: All investing involves risks of fluctuating prices and the uncertainties of rates of return and yield. **Currency** To the extent that the Portfolio invests directly in foreign currencies or in securities denominated in, or that trade in, foreign (non-U.S.) currencies, it is subject to the risk that those currencies will decline in value relative to the U.S. dollar or, in the case of hedging positions, that the U.S. dollar will decline in value relative to the currency being hedged. **Derivative Instruments** Derivative instruments are subject to a number of risks, including the risk of changes in the market price of the underlying securities, credit risk with respect to the counterparty, risk of loss due to changes in interest rates and liquidity risk. The use of certain derivatives may also have a leveraging effect which may increase the volatility of the Portfolio and reduce its returns. **Foreign Investments/Developing and Emerging Markets** Investing in foreign (non-U.S.) securities may result in the Portfolio experiencing more rapid and extreme changes in value than a fund that invests exclusively in securities of U.S. companies, due to smaller markets, differing reporting, accounting and auditing standards, and nationalization, expropriation or confiscatory taxation, foreign currency fluctuations, currency blockage, or political changes or diplomatic developments. Foreign investment risks typically are greater in developing and emerging markets than in developed markets. **Asset-Backed (including Mortgage-Related) Securities** Defaults on or the low credit quality or liquidity of the underlying assets of the asset-backed (including mortgage-related) securities held by the Portfolio may impair the value of the securities. **Credit Derivatives** The Portfolio may enter into credit default swaps, either as a buyer or a seller of the swap. As a buyer of the swap, the Portfolio pays a fee to protect against the risk that a security held by the Portfolio will default. As a seller of the swap, the Portfolio receives payment(s) in return for its obligation to pay the counterparty an agreed upon value of a security in the event of a default of the security issuer. Credit default swaps are largely unregulated and susceptible to liquidity, credit, and counterparty risks. Other risks of the Portfolio include but are not limited to: **Leverage, Liquidity, Other Investment Companies, Call, Credit, High-Yield Securities, Prepayment and Extension and Securities Lending. Investors should consult the Portfolio's Prospectus and Statement of Additional Information for a more detailed discussion of the Portfolio's risks. An investment in the Portfolio is not a bank deposit and is not insured or guaranteed by the Federal Deposit Insurance Corporation, the Federal Reserve Board or any other government agency.**

The strategy employs a quantitative investment process. The process is based on a collection of proprietary computer programs, or models, that calculate expected return rankings based on variables such as earnings growth prospects, valuation, and relative strength. Portfolio construction uses a traditional optimizer that maximizes expected return of the portfolio, while managing tracking error.

Data imprecision, software or other technology malfunctions, programming inaccuracies and similar circumstances may impair the performance of these systems, which may negatively affect Fund performance. Furthermore, there can be no assurance that the quantitative models used in managing the Fund will perform as anticipated or enable the Fund to achieve its objective.

The strategy is available as a mutual fund or variable portfolio. The mutual fund may be available to you as part of your employer sponsored retirement plan. There may be additional plan level fees resulting in personal performance that varies from stated performance. Please call your benefits office for more information.

Variable annuities and group annuities are long-term investments designed for retirement purposes. If withdrawals are taken prior to age 59½, an IRS 10% premature distribution penalty tax may apply. Money taken from the annuity will be taxed as ordinary income in the year the money is distributed. An annuity does not provide any additional tax deferral benefit, as tax deferral is provided by the plan. Annuities may be subject to additional fees and expenses to which other tax-qualified funding vehicles may not be subject. However, an annuity does provide other features and benefits, such as lifetime income payments and death benefits, which may be valuable to you.

Variable investments, of any kind, are not guaranteed and are subject to investment risk including the possible loss of principal. The investment return and principal value of the security will fluctuate so that when redeemed, it may be worth more or less than the original investment. In addition, there is no guarantee that any variable investment option will meet its stated objective. All guarantees are based on the financial strength and claims paying ability of the issuing insurance company, who is solely responsible for all obligations under its policies.

Insurance products, annuities and funding agreements issued by Voya Retirement Insurance and Annuity Company ("VRIAC"), One Orange Way, Windsor, CT 06095, which is solely responsible for meeting its obligations. Plan administrative services provided by VRIAC or Voya Institutional Plan Services, LLC ("VIPS"). Securities distributed by or offered through Voya Financial Partners, LLC ("VFP") (member SIPC)or other broker-dealers with which it has a selling agreement. Only Voya Retirement Insurance and Annuity Company is admitted and can issue products in the state of New York. All companies are members of Voya Financial.

This commentary has been prepared by Voya Investment Management for informational purposes. Nothing contained herein should be construed as (i) an offer to sell or solicitation of an offer to buy any security or (ii) a recommendation as to the advisability of investing in, purchasing or selling any security. Any opinions expressed herein reflect our judgment and are subject to change. Certain of the statements contained herein are statements of future expectations and other forward-looking statements that are based on management's current views and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. Actual results, performance or events may differ materially from those in such statements due to, without limitation, (1) general economic conditions, (2) performance of financial markets, (3) interest rate levels, (4) increasing levels of loan defaults (5) changes in laws and regulations and (6) changes in the policies of governments and/or regulatory authorities. **Past performance does not guarantee future results.**

The opinions, views and information expressed in this commentary regarding holdings are subject to change without notice. The information provided regarding holdings is not a recommendation to buy or sell any security. Portfolio holdings are fluid and are subject to daily change based on market conditions and other factors.

Not FDIC Insured | May Lose Value | No Bank Guarantee
CMFC-GLOBALBONDSTRAT 063024 • ex063025 • IM3781650 • WLT250006938