

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.

You should consider the investment objectives, risks, and charges and expenses of the variable product and its underlying fund options; or mutual funds offered through a retirement plan, carefully before investing. The prospectuses / prospectus summaries / information booklets contain this and other information, which can be obtained by contacting your local representative or by calling (800) 992-0180. Please read the information carefully before investing.

Key takeaways

- Global markets ended the year with a spirited rally, with U.S. Federal Reserve ending its rate hiking cycle and the European Central Bank (ECB) acknowledging rate cuts were on the horizon.
- The peak in U.S. yields coincided with a peak in the U.S. dollar, with both developed and emerging market (EM) currencies outperforming for the period.
- Central bank policy is diverging. The ECB is expected to cut rates, while the Fed may delay rate cuts until mid-year. Meanwhile, the Bank of Japan (BoJ) will attempt to normalize with more restrictive policy.

Portfolio review

For the quarter ended December 31, 2023, 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. Sector allocation decisions and duration and yield curve positioning drove performance, while currency allocations were a small detractor for the period.

Global bond yields peaked and bond markets ended the year with a spirited rally, as the U.S. central bank ended their rate hiking cycle. The final quarter for the year began with cycle high interest rates and worries that the Fed would continue its rate hiking cycle. As a result, the Bloomberg Global Aggregate Bond Index return 8.10% for the period. Then came November and with it, a notable turn in sentiment. Inflation data continued to decline, and economic activity was received by the markets as less threatening to the inflation picture. The more balanced backdrop laid the ground for the Fed to confirm market expectations that a less restrictive stance was in the near future and the updated dot plot showed that every single participant believed the hiking cycle had concluded. By the end of the year, the 10-year U.S. Treasury landed exactly where it started 2023, while 10-year European yields were broadly lower as the economic outlook remains tepid and Japanese government bond yields inched higher as the central bank has eased off on yield curve control. The peak in U.S. yields coincided with a peak in the U.S. dollar, with both developed and EM currencies outperforming for the period. EM central banks are in a better position to cut interest rates as developed central bank rate hikes subside, which is typically a hurdle for EM.

Credit sectors broadly outperformed government markets. One thing that was consistent throughout the year and continued during the fourth quarter was that credit outperformed and lower rated credit sectors such as high yield (HY) produced strong excess returns. Higher quality sectors spanning corporate and securitized sectors posted respectable outperformance. Even agency mortgage-backed securities (MBS), which struggled throughout the year, rallied in response to falling rates and falling rate volatility that ended the quarter on a high note.

Sector allocation as well as duration and yield curve positioning drove performance, while currency allocations were a small detractor from performance. The strongest contributions were sourced from HY corporate allocations as the risk rally benefited lower quality sectors the most. Securitized positioning in aggregate was positive, as positioning in agency residential mortgage-backed securities (RMBS) that included overweights and off benchmark security selection added, while investments in more credit sensitive commercial mortgage-backed securities (CMBS) deals offset some of those gains. Duration positioning in developed markets was modestly above the benchmark, and added as rates rallied. Relative value opportunities in developed rates also contributed. Positioning across EM also added as a less hawkish stance from developed central banks drove yields lower, currencies higher and spreads tighter across the complex. Currency decisions in developed markets represented a small detraction, while our modest exposures to EM currencies contributed. Over the period, we trimmed duration as we believe markets are now too optimistic on the timeline for rate cuts from the Fed. We also trimmed allocations across corporate and securitized credit markets, reflecting our views on relative valuations. In agency RMBS, we reduced our overweight on the heels of the strong outperformance and expect to remain tactical in this sector as rate volatility is likely to remain above the lower levels witnessed prior to Covid.

Current strategy and outlook

Looking forward, the outlook has improved, and we expect growth to slow near trend. The increased cost of capital will likely curb consumption and investment, however ongoing government support measures at a global level are expected to partially offset these effects. In particular, China's growth focused investment and advanced economies efforts to enhance supply chain security are anticipated to bolster growth in the short term. Central bank policy will be in a state of flux for 2024. We expect the ECB to cut rates

first. While the Fed is expected to cut rates in 2024, the timing of the first cut will remain a subject for debate (and volatility). Lastly, the BoJ remains committed to normalizing interest rates, but time will reveal if they have missed their opportunity now the Fed and ECB are no longer raising rates. Rate volatility, though receding from recent peaks, will remain above pre-pandemic levels due to uncertainty about the timing of rate cuts and concerns about government debt levels. Elevated real rates will incent investors to increase allocations to fixed income, creating opportunities during bouts of volatility.

The U.S. dollar has likely peaked but the risk of significant weakness is limited. For the last two years, we have noted that the fate of the U.S. dollar was tied to the actions of the Fed. With the Fed no longer raising rates, we think the dollar has witnessed its cycle highs. That said, the economic landscape leaves the United States in a relative position of strength so the risk of a meaningful decline in the U.S. dollar is limited. Meanwhile, we think EM currencies can benefit from a Fed no longer acting as a monetary challenge.

With this dynamic in place, portfolios have a moderate level of risk with focus on higher quality credit, and allocations are skewed towards sectors with better relative value. For example, securitized credit markets are currently trading with wider spreads relative to comparably rated corporates bonds. Meanwhile, the dark clouds facing the sector due to concerns over CMBS appear to be fading as lower rates make refinancing existing loans less challenging. Within corporate credit, we prefer investment grade, however to the extent we are willing to drift into lower quality, we prefer HY over senior loans given the latter is most directly impacted by higher financing costs. Outside of credit, agency MBS remain attractive relative to Treasuries due to historically wide spreads despite minimal prepayment risk. Meanwhile, EM should continue to perform well, despite elevated geopolitical headlines that will create episodes of volatility.

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.

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