Commentary | 2Q25

Voya High Yield SMA

Seeks total return, balancing income and diversification potential

Strategy overview

Total return approach, investing in below-investment grade corporate securities with a bias towards higher quality and a concentrated posture.

Key takeaways

- The Bank of America Merrill Lynch High Yield Master II Index (the Index) returned 3.57% for the quarter.
- The SMA underperformed the Index on a both gross- and net-of-fees basis during the quarter, primarily due to its higher quality focus.
- 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 United States and 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, 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 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.

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Portfolio review

For the quarter, the SMA underperformed the Index on a both gross- and net-of-fees basis. The strategy's focus on higher quality bonds detracted during the period.

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 appear rich. As of quarter-end, investment grade (IG) corporate spreads were just 83 basis points (bp) while high yield (HY) finished 300 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. As such, we will continue to emphasize security selection with a preference for higher quality assets.

Read our strategy brief

Returns are benchmarked to the **ICE Bank of America U.S. High Yield Master II Constrained Index**, which does not incur management fees, transaction costs, or other expenses associated with a composite portfolio. The ICE Bank of America High Yield Master II Index is a market value-weighted index consisting of U.S. dollar-denominated, non-investment grade bonds not currently in default and limits any individual issuer to a maximum of 2% benchmark exposure. 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: 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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