Voya Investment Grade Credit Strategy

Focus On Total Return Driven By Security Selection Through US Investment Grade Corporate Bonds

Strategy overview

The Investment Grade Credit strategy seeks to maximize total return over a full market cycle via rigorous security selection and a duration-neutral approach to discovering risk-adjusted opportunities across the full range of U.S. investment grade corporate bonds.

Performance

For the quarter ending September 30, 2024, the Strategy outperformed its benchmark, the Bloomberg U.S. Corporate Index (the Index), on a both gross- and net-of-fees basis.

Key takeaways

- The third quarter of 2024 was characterized by a gradual moderation in the labor market, further easing in inflation and a proactive shift in monetary policy by the U.S. Federal Reserve.
- The Strategy outperformed the Index in the third quarter on a both gross- and net-of-fees basis.
- We continue to like investment grade (IG) from a yield perspective, but we remain cautious after spreads rallied back to near year to date tights.

Market review

The third quarter of 2024 was characterized by a gradual moderation in the labor market, further easing in inflation and a proactive shift in monetary policy by the Fed. These factors, coupled with a solid growth environment, resulted in strong returns across both equity and fixed income markets. The labor market's path towards normalization was evidenced by cooling non-farm payrolls reports, a decline in the number of job openings, and the quits rate reverting to pre-pandemic levels. While the unemployment rate ticked up modestly, the labor market remains near historically tight levels, which allowed consumer spending to continue to advance at a decent rate. Inflation continued its downward trend, with core Consumer Price Index (CPI) approaching 3.00%, despite the shelter component remaining stubbornly elevated. Core goods priced remained in deflation, while core services inflation decelerated significantly, partially attributable to moderating wage gains. This disinflationary environment provided the Fed with the flexibility to shift its focus from inflation concerns to labor market conditions and ultimately deliver a 50 basis points (bp) cut at its September meeting. As such, yields rallied across the curve, with front end rates falling more significantly than long-end rates. Credit spreads, which began the quarter at tight levels, saw some volatility intra-quarter but ultimately finished tighter.

IG corporate spreads finished the quarter 5 bp tighter after intra-quarter volatility to an option-adjusted spreads (OAS) of 89 bp, outperforming like-duration Treasuries by 80 bp. Total returns for the Bloomberg U.S. Corporate Index for the quarter stood at 5.84%, bringing the YTD total return up to 5.32%. The Index yield-to-worst declined 76 bp to 4.72% as yields fell across the curve. Demand was strong for high quality yield over the quarter. As a result, single-A rated bonds saw spreads outperform BBB-rated names, while long bonds received a strong bid from yield-seeking buyers given front-end yields moved lower with the bull-steepening seen in the Treasury curve. The bid for high quality yield also led to the outperformance of utilities, which saw a slowdown in new supply after heavy issuance in the first two quarters and had lagged financials as well as industrials through much of the year.

An investor should consider the investment objectives, risks, charges and expenses of the Fund(s) carefully before investing. For a free copy of the Funds' prospectus, or summary prospectus, which contains this and other information, visit us at www.voyainvestments.com or call (800) 992-0180. Please read the prospectus carefully before investing.

Performance review

The Strategy outperformed the Index in the third quarter of 2024 on a both gross- and net-of-fees basis. Security selection drove outperformance for the quarter led by holdings across financials and utilities, while industrials detracted modestly. Within financials, banking was the top contributor to outperformance as the portfolio benefitted from key overweight positions in European banks as well as U.S. regional banks. Selection within the insurance sector, notably holdings in insurance brokers and mortgage insurers, was also additive to outperformance. Within industrials, contributions from select overweight positions in pharmaceuticals and technology names were offset by detractions in consumer cyclicals, energy and communications. From a quality perspective, the portfolio benefitted from strong selection across single-A and BBB-rated names, while its small allocation to high yield names was also additive. Sector allocation was a contributor to results driven by the portfolio's overweight financials versus an underweight in industrials, as well as its allocation to Treasuries.

We entered the period with a modestly long risk posture versus the benchmark as spreads had leaked wider late in the second quarter. We were active in managing top-line portfolio risk around spread volatility, selectively adding risk when spreads widened in early August and bringing risk back to a more neutral stance as spreads compressed through September. We were also active in the new issue market as supply came in fairly heavy and with attractive concessions, particularly in the latter months of the quarter, adding high quality industrials by selling and taking gains in select names across financials sectors as well as BBB-rated industrials where we felt further upside was limited. On the curve, we added some exposure to longer-dated bonds as the credit curve steepened modestly throughout the quarter but continue to prefer the intermediate segment as valuations remain attractive relative to the front and long-ends.

Outlook and current strategy

Credit fundamental factors remain resilient heading into earnings season but are unlikely to be the drive of spreads in the near-term. Third quarter earnings kick off mid-October and are expected to remain resilient overall despite the rate of growth falling slightly from the second and first quarters of 2024. While the largest technology names are expected to see slowing earnings-per-share growth over the coming quarters, the rest of the market is expected to reaccelerate, offsetting the slowdown in technology. Second quarter earnings showed continued balance sheet discipline in aggregate, with leverage levels and cash paid to shareholders increasing only modestly. This has helped support positive rating trends YTD, with upgrades continuing to outpace downgrades. Furthermore, the macro environment remains supportive overall for IG, with low but positive growth and the Fed having started its cutting cycle in September.

The technical environment should be more supportive of IG heading into the final quarter of 2024. September supply came in at $171 billion, which was 35% higher than the past four-year average and well above expectations. The heavy supply was well absorbed as the IG market saw weekly inflows of nearly $8 billion, well above the $5 billion weekly average YTD, as investors sought to lock in higher yields ahead of Fed cuts. October new supply is expected to come in line with historical averages and, importantly, we still expect net supply to turn negative in the fourth quarter, providing strong momentum heading into year-end. Finally, dealer balance sheets remain close to home which is generally positive for spreads.

We continue to like IG from a yield perspective, but we remain cautious as spreads retraced back to near YTD tights. Spreads gapped wider to 110 bp in early August amid a weak payrolls report and the unwind of the Japanese yen carry trade, which allowed us to tactically add risk at attractive valuations. Spreads rebounded quickly, however, and now sit just 4 bp off YTD tights from May. We reduced risk into the grind tighter post the September Fed meeting and are waiting for a more attractive entry point to add risk back to the portfolio. We continue to like financials as we believe the sector still has room to compress relative to industrials. Within industrials, we like communications and technology and see room for further spread compression in favored BBB-rated names. On the curve, we prefer the 7–10-year segment over the front and long-ends. With the start of earnings season and the U.S. election on the horizon, we expect spread volatility to increase in the near-term.

The **Bloomberg U.S. Corporate Index** measures the investment grade, fixed-rate, taxable corporate bond market. It includes USD-denominated securities publicly issued by US and non-US industrial, utility and financial issuers. This index is a component of the US Credit and US Aggregate Indices, and provided the necessary inclusion rules are met, US Corporate Index securities also contribute to the multi-currency Global Aggregate Index. Index returns do not reflect fees, brokerage commissions, taxes or other expenses of investing. Investors cannot invest directly in an Index.

Past performance is no guarantee of future returns. All investing involves risks of fluctuating prices and the uncertainties of rates of return and yield inherent in investing. All security transactions involve substantial risk of loss. Please reference your client statement for a complete review of recent transactions and performance.

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.

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. strategy holdings are fluid and are subject to daily change based on market conditions and other factors.

For qualified institutional investor or financial professionals use only. Not for inspection by, distribution or quotation to, the general public.

The attached material includes discussion of non-U.S. registered investments. Investment related documents, such as prospectuses, may not be available to prospective investors in some jurisdictions where such investments are prohibited for sale. This material is provided for informational purposes only and does not constitute an offer to sell or a solicitation of an offer to buy any security which may be referenced herein.

©2024 Voya Investments Distributor, LLC • 230 Park Ave, New York, NY 10169 • All rights reserved.

Not FDIC Insured | May Lose Value | No Bank Guarantee
CMFC-MCOPPTSTRAT 093024 • ex093025 • IM3940995

voyainvestments.com