Voya GNMA Income Fund

Access High Quality Mortgage Securities

Strategy overview

Primarily invests in Government National Mortgage Association (GNMA) securities with maturities in excess of one year and which have the same credit quality as U.S. Treasury securities, but higher yields to compensate for prepayment uncertainty.

Key takeaways

- The U.S. Federal Reserve telegraphed and initiated its rate cut program during the quarter. According to Fed's dot plot in September, two additional cuts were expected this year. In the third quarter, the Fed reduced its balance sheet through runoff, with 3Q24 runoff equating to around $54 billion in additional mortgage-backed securities (MBS) supply.
- Interest rates rallied across the board with the 10-year falling 62 basis points and the 2-year and 10-year significantly steepening 50 bp during the quarter. Accordingly, the 30-year fixed mortgage rate decreased around 80 bp to 6.15%.
- GNMA MBS outperformed by 32 bp as rate rallied during the quarter and more clarity was provided with regards to Basel III endgame. Belly coupons outperformed the wings of the coupon stack.
- Housing market activity increased as we went through summer seasonals. Both new home sales and existing home sales accelerated, however, overall home sales remain subdued by historical standards.

Portfolio review

For the quarter, Voya GNMA Income Fund outperformed it' the benchmark, the Bloomberg GNMA Index on a net asset value (NAV) basis. Outperformance was driven by beneficial reinvestment rates on to-be-announced (TBA) holdings, as well as a modest overweight to duration. Meanwhile, selections within pools also contributed, while allocations to collateralized mortgage obligations (CMO) detracted.

Current outlook and strategy

Agency MBS staged an impressive comeback in the third quarter as the yield curve bull steepened amidst cooling inflation data and increased scrutiny on employment and labor. Housing activities accelerated as we went through summer seasonals, but still remained relatively low due to elevated mortgage rates. Inflation, as measured by Consumer Price Index, has met market estimates in both July and August. An increased probability of a potential recession would benefit MBS demand as a flight-to-safety entices money managers to increase allocations.

From a technical perspective, lower coupons remain sensitive to supply and demand factors. As the largest part of the Index with no new supply, lower coupons tend to outperform when there's passive index flows into fixed income and mortgage funds. Demand for Ginnie versus Conventionals is also impacted by technical factors. If the reproposed banking regulations require smaller banks to follow similar regulatory requirements akin to their larger, global systemically important bank (GSIB) counterparts, we could see resurgent bank demand for Ginnie

Mae MBS for the remainder of 2024. From a fundamental perspective, prepayment speeds for recently produced, high coupon, Veteran Affairs (VA) loans remain elevated due to the efficiency of VA's streamlined refinancing program.

Housing prices remained stable during the quarter with Case-Shiller 20-City Home Price Index up a seasonally adjusted 0.27% in July. Overall MBS supply appears to be relatively docile for the foreseeable future for both gross and net issuance; however, the GNMA fund managers will continue to monitor the technical factors impacting MBS supply.

The GNMA Income Fund maintains an allocation to conventional, where technical demand and fundamental value appear more attractive. Additionally, the Fund maintains an allocation to CMOs which offer greater longer-term value with higher spreads relative to generic collateral, especially on an option-adjusted basis. Finally, the Fund maintains a preference for higher coupon collateral such as 4.5s to 5.5s.

The **Bloomberg GNMA Index** tracks fixed-rate mortgage-backed pass-through securities guaranteed by the Government National Mortgage Association (GNMA). The Index is constructed by grouping individual MBS pools into aggregates or generics, which proxy for the outstanding pools of a given program, coupon and vintage. The Indexes 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 security transactions involve a substantial risk of loss. Please reference your client statement for a complete review of recent transactions and performance.

Principal risks. All investing involves risks of fluctuating prices and the uncertainties of rates of return and yield. As interest rates rise, bond prices fall, reducing the value of the Fund's share price. To the extent that the Fund invests in asset-backed, mortgage-backed or mortgage-related securities, its exposure to prepayment and extension risks may be greater than investments in other fixed-income securities. While the Fund invests in securities guaranteed by the U.S. government as to timely payments of interest and principal, **the Fund's shares are not insured or guaranteed.** Other risks of the Fund include but are not limited to: credit risks, extension risks, other investment companies' risks, prepayment risks, U.S. government securities and obligations risks and securities lending risks. Investors should consult the Fund's Prospectus and Statement of Additional Information for a more detailed discussion of the Fund's risks. An investment in the Fund is not a bank deposit and is not insured by the Federal Deposit Insurance Corporation, the Federal Reserve Board or any other government agency.

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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.

The Fund discussed may be available to you as part of your employer sponsored retirement plan. There may be additional plan level fees resulting in personal performance to vary from stated performance. Please call your benefits office for more information.

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