

Comprehensive Research, Broad Diversification

Strategy overview

Total return approach, investing in below investment grade corporate securities.

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. These factors, coupled with a solid growth environment, resulted in strong returns across both equity and fixed income markets.
- For the quarter, class I shares of the Fund underperformed the Index on a net asset value (NAV) basis.
- The macro outlook remains supportive overall, with growth remaining near trend and the Fed having started its cutting cycle in September.

Portfolio 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 approaching 3%, despite the shelter component remaining stubbornly elevated. Core goods prices 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.

High yield (HY) credit spreads, which began the quarter at tight levels, saw some volatility intra-quarter in early August but ultimately finished tighter. The average option-adjusted spread of the Bloomberg High Yield 2% Issuer Cap Index (Index) finished the quarter at 295 bp, having tightened 14 bp from the start of the quarter. With rates rallying sharply and credit spreads further tightening, the Index posted a strong total return of 5.28%, bringing its YTD return to 8.00%. The story of the quarter was the lower rated "tail" of the market, where bonds of a subset of distressed issuers in sectors such as media and telecom that had been under pressure in prior months rallied sharply. This impact is evident in returns across credit ratings, with CCC rated bonds returning 10.20% for the quarter, versus 4.53% for B rated bonds and 4.25% for BB rated bonds. Primary market issuance decreased given the seasonal summer slowdown, while the use of proceeds continues to primarily consist of refinancings. Investor flows into HY increased notably during the quarter, driven by attractive yields and strong equity market performance.

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.

For the quarter, class I shares of the Fund underperformed the Index on a NAV basis. Security selection within the CCC rating cohort was the primary relative detractor during the period, primarily reflecting distressed names the Fund did not own within the cable and media space, which rallied sharply due to idiosyncratic events and general increased market appetite for risk. These names include Commscope, Lumen, Unity and iHeart. In contrast, the portfolio benefited from positions within media that rallied due to the aforementioned factors, most notably EW Scripps, as well as select holdings within the chemicals sector, such as Iris Holdings and Trinseo.

Current strategy and outlook

The macro outlook remains supportive overall, with growth remaining near trend and the Fed having started its cutting cycle in September. Fundamental factors in the HY market remain generally healthy, barring a few pockets of stress in the more secularly challenged sectors. That said, we are closely monitoring key risks that could heighten volatility and widen spreads over

the coming quarters, such as a more meaningful slowdown in growth and the possibility of margin compression, as pricing power diminishes against the backdrop of disinflation. The prevailing supply and demand imbalance should continue to persist, with net issuance remaining muted, while steady fund inflows and coupon reinvestment support demand. Although spreads do not appear particularly cheap, solid credit fundamental factors should limit spread widening and the carry from high all-in yields should cushion total returns.

We maintain an overweight to single-B rated bonds, while modestly underweight in BB and CCC rated bonds. On the margin, we have become slightly more defensive as of late given tight valuations, with a continued focus on name-specific risk in what remains a heavily dispersed market. In terms of sector positioning, we are still positive on the healthcare space given higher utilization rates and easing labor costs, as well as the food and beverage sector given defensive nature and attractive free cash flow generation. On the other hand, we continue to maintain a more cautious and selective stance in industries that face secular challenges, such as media and cable.

The **Bloomberg Barclays High Yield Bond—2% Issuer Constrained Composite Index** is an unmanaged index that includes all fixed income securities having a maximum quality rating of Ba1, a minimum amount outstanding of \$150 million, and at least one year to maturity. **Investors cannot invest directly in an index.**

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