Commentary | 4Q20

Voya Enhanced Yield Fixed Income SMA

Higher Credit Quality Approach, Selective High Yield Exposure

Strategy overview

A total return strategy that uses a multi-sector approach with a higher quality posture through the use of Treasury, Agency, and Corporate Credit securities, both Investment Grade and Below, with 1-10 year maturities.

For the quarter, the Voya Enhanced Yield Fixed Income SMA underperformed its benchmark with positive return even as rates rose for the quarter. The benchmark is a blended index consisting of 60% of the Bloomberg Barclays Intermediate U.S. Government/Credit index and 40% of the ICE Bank of America Merrill Lynch U.S. High Yield Master II Constrained index. Sector allocation added to performance, while security selection detracted.

The portfolio remained overweight in high-quality corporate bonds versus an underweight to U.S. Treasury bonds. Corporate exposure was concentrated in less-aggressive, liquid and higher credit quality debt issues. While the decision to overweight investment-grade (IG) and high-yield (HY) corporates versus the benchmark added to relative results, some of the individual securities detracted as lower-quality securities performed better in 4Q20 than higher-quality securities, thereby offsetting the asset allocation gain over the period. The U.S. Treasury allocation also added to results.

Yields rose and spread sectors continued their outperformance in the final quarter of 2020. The U.S. and global economies showed signs of re-emerging from challenges earlier in the year, and the approval of two vaccines extended the outperformance of risks assets and triggered a cyclical rotation favoring sectors that had been lagging in the summer rebound. U.S. GDP rose 33.4% on an annualized basis in the third quarter (after a decline of -31.4% in the second quarter) and U.S. unemployment levels declined to 6.7% in November, albeit at a slower pace, but a meaningful reduction from the peak level of 14.7% recorded in April. Fiscal stimulus, varying levels of re-openings around the country and simply adjusting to living in a “Covid world” supported healing in the economy. While the U.S. elections were expected to be the center of attention, the announcement of two vaccines and their rapid approval by the Food and Drug Administration (FDA) stole the spotlight. The news from both Moderna and Pfizer fueled hope for a return to normalcy and added momentum to the demand for risk assets.

Heading into 2021, the market backdrop for cyclical sectors is extraordinarily positive. We believe consumers, supported by excess savings, robust net worth and additional fiscal aid, will drive a recovery in discretionary spending, leading to a full re-engagement of the service sector as the vaccine rollout becomes more widespread. The recovery in services spending, coupled with resilience in goods demand, should usher in an extended period of synchronous, above-trend global growth, easing pressures on the income divide.

In the near-term, cyclical sectors are relatively attractive. We believe that a rebound in economic growth, fostered by fiscal and central bank support, will push yield spreads uncomfortably tight in 2021. However, we also recognize the market seems to be very aligned on the near-term positive direction of risk assets. This one-way sentiment opens the door for volatility. The vaccine news is overwhelmingly positive, and we believe the vaccine ultimately will succeed. However, the potential for episodic market stresses, whether connected to the vaccine or other global factors, should not be overlooked.

The heavy use of economic stabilizers creates vulnerability to shocks and will leave investors exposed to increasingly asymmetric risk profiles. Security selection, which is always important, will be critical, as the dispersion between “winning” and “losing” investments within sectors will remain extremely wide. Diversification and careful analysis of cyclical versus structural factors are necessary to mitigate downside risks and prepare portfolios for the income-starved world we face ahead.

The **Bloomberg Barclays Intermediate U.S. Credit Index** measures the investment agrade, U.S. dollar-denominated, fixed-rate, taxable corporate and government related bond markets. It is composed of the U.S. Corporate Index and a non-corporate component that includes foreign agencies, sovereigns, supranationals and local authorities. **Investors cannot invest directly in an index.**

The **Bank of America Merrill Lynch U.S. High Yield Master II Constrained Index** is an unmanaged market value-weighted index of all domestic and Yankee high-yield bonds, including deferred interest bonds and payment-in-kind securities. Issues included in the index have maturities of one year or more and have a credit rating lower than BBB-/Baa3, but are not in default. The Merrill Lynch U.S. High Yield Master II Constrained Index limits any individual issuer to a maximum of 2% benchmark exposure. Investors cannot invest directly in an index.

The principal risks are generally those attributable to bond investing. Holdings are subject to market, issuer, credit, prepayment, extension, and other risks, and their values may fluctuate. Market risk is the risk that securities may decline in value due to factors affecting the securities markets or particular industries. Issuer risk is the risk that the value of a security may decline for reasons specific to the issuer, such as changes in its financial condition. The strategy may invest in mortgage-related securities, which can be paid off early if the borrowers on the underlying mortgages pay off their mortgages sooner than scheduled. If interest rates are falling, the strategy will be forced to reinvest this money at lower yields. Conversely, if interest rates are rising, the expected principal payments will slow, thereby locking in the coupon rate at below market levels and extending the security's life and duration while reducing its market value. High yield bonds carry particular market risks and may experience greater volatility in market value than investment grade bonds. Foreign investments could be riskier than U.S. investments because of exchange rate, political, economics, liquidity, and regulatory risks. Additionally, investments in emerging market countries are riskier than other foreign investments because the political and economic systems in emerging market countries are less stable. Returns are benchmarked to a customized blend of 60% Bloomberg Barclays Intermediate Gov/Credit Index & 40% Bank of America Merrill Lynch US High Yield Master II Constrained Index, rebalanced on a monthly basis, which does not incur management fees, transaction costs, or other expenses associated with a composite portfolio. 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. In December 2006, the High Yield portion of the custom-weighted benchmark was changed from the Citigroup High Yield Cash Pay Index to the Bank of America Merrill Lynch US High Yield Master II Constrained Index, effective from June 1, 2005 to the present. The reason for the change was due to a fundamental change in the composition of the Citigroup index that made it unrepresentative of the strategy's investment process. **Indexes do not reflect fees, brokerage commissions, taxes or other expenses of investing, and investors cannot directly invest in an index. Source: Bloomberg Barclays and Merrill Lynch and Voya Investment Management.**

Actual results, performance or events may differ materially from those in such statements. Any opinions, projections, forecasts and forward-looking statements presented herein are valid only as of the date of this document and are subject to change. Nothing contained herein should be construed as (i) an offer to buy any security or (ii) a recommendation as to the advisability of investing in, purchasing or selling any security. Voya IM assumes no obligation to update any forward-looking information. 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. Portfolio holdings are fluid and are subject to daily change based on market conditions and other factors.

ICE BofA Merrill Lynch® indices used with permission, are provided "AS IS", without warranties, and with no liability. BofAML does not sponsor, endorse, review, or recommend Voya or its products or services.

Past performance does not guarantee future results.

©2021 Voya Investments Distributor, LLC • 230 Park Ave, New York, NY 10169 • All rights reserved.

Not FDIC Insured | May Lose Value | No Bank Guarantee
SMAC-SI-MLC 123120 • ex123121 • IM1491157 • WLT250006884

INVESTMENT MANAGEMENT

VOYA®