

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.

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.

Key takeaways

- The U.S. Federal Reserve is at the end of their interest rate hiking cycle, keeping short-term interest rates unchanged during the quarter. Fed is reducing its balance sheet through runoff, with 4Q23 runoff equating to around \$46 billion.
- Interest rates significantly rallied, dropping 70 basis points (bp) with the 2-year and 10-year steepening 10 bp during the quarter. Accordingly, the 30-year fixed mortgage rate decreased around 78 bp to 6.58%. Despite these lower levels, around 99% of the mortgage-backed securities (MBS) Index has no economic incentive to refinance.
- MBS outperformed Treasury hedges as they have been trading directionally with rates recently. Declining rate volatility was also a contributor to the outperformance. Belly coupons (e.g., 3s to 3.5s) outperformed the wings.
- Outperformance throughout the MBS Index was reflected in the mortgage spreads tightening across the index for both zero-volatility and option adjusted metrics. MBS spreads now appear fair.
- Housing market activity remained muted through the period due to the elevated mortgage rates. Both new home sales and existing home sales have decreased with new home sales decreasing at a greater rate.
- For the quarter, the Voya GNMA Income Fund underperformed its benchmark, the Bloomberg GNMA Index, on a net asset value (NAV) basis.

Current outlook and strategy

Agency MBS came roaring back in the fourth quarter as rates rallied and market turned its attention to Fed potentially cutting rates in 2024. Despite the rate rally, mortgage rates remained elevated from a historical perspective. Housing activities remained muted as we head into the slower, winter months. This provided a tailwind on the supply side to the agency MBS market. Inflation, as measured by Consumer Price Index (CPI), has come in line or lower than market consensus in October and November. The expected lower MBS supply and fears of a potential recession should benefit MBS demand as a flight-to-safety entices money managers to increase allocations. Additionally, if new 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.

Housing prices remained stable during the quarter with Case-Shiller 20-City Home Price Index up a seasonally adjusted 0.64% in October. This is partly due to limited housing inventory caused to some degree by the strong lock-in effect. Overall MBS supply appears to be relatively docile for the foreseeable future; however, the GNMA fund managers will continue to monitor the technical factors impacting MBS supply.

The Voya GNMA Income Fund continues to be underweight in GNMA collateral relative to the benchmark where fundamental value may be strained. The Fund remains overweight to off-benchmark GNMA and agency-backed collateralized mortgage obligations (CMO) which offer greater longer-term value with higher spreads relative to generic collateral, especially on an option-adjusted basis. Additionally, the Fund maintains a preference for higher coupon collateral versus the deep discounts where nominal spreads remain tight.

Portfolio review

For the quarter, the Fund underperformed its benchmark. The underperformance was mostly attributable to a short duration and floater positioning as well as underweight in benchmark holdings.

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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