Commentary | 1Q25

Voya Intermediate Fixed Income SMA

Multi-Sector Approach Focused on Total Return

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Strategy overview

Seeks to provide a total return strategy utilizing a multi-sector approach with a high quality posture through the use of Treasuries, Agencies, and Corporate credit securities with 1-10 year maturities.

Key takeaways

- For the quarter, the Voya Intermediate Fixed Income SMA underperformed its benchmark, the Bloomberg Intermediate Government/Credit Index (the Index) on a gross- and net-of-fees basis.
- The first quarter of 2025 was marked by volatility in the fixed income markets, primarily driven by tariff policies and associated economic uncertainty. Despite robust job gains and a low unemployment rate, fixed income spreads widened, leading to broadly negative excess returns.
- Looking ahead, fundamental factors remain supportive due to positive expected growth, a healthy labor market and resilient consumer.

Market review

The first quarter of 2025 was marked by volatility in the fixed income markets, primarily driven by tariff policies and associated economic uncertainty. Despite robust job gains and a low unemployment rate, fixed income spreads widened, leading to broadly negative excess returns. Credit spreads began to widen in mid-February when tariff threats intensified. Investment Grade (IG) corporates delivered negative excess returns, as did high-yield (HY) corporates, although the higher carry profile of HY helped the sector modestly outperform its IG counterpart.

The labor market remained strong, with job gains averaging around 200,000 per month and an unemployment rate only slightly above 4%. However, tariff policies were the primary driver of market moves. The uncertainty surrounding these tariffs, along with the potential for an escalating trade war, negatively impacted risk assets, despite solid labor market dynamics. Similarly, rates fell during the quarter in response to lower growth expectations, which helped deliver positive total returns for most sectors.

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Portfolio review

For the quarter, the Voya Intermediate Fixed Income SMA underperformed its benchmark, the Bloomberg Intermediate Government/Credit Index (the Index) on a gross- and net-of-fees basis. The SMA's shorter duration profile versus the Index caused a drag to performance, as rates moved lower during the quarter. On the other hand, our SMA's focus on higher-rate bonds within IG added to results, as higher quality credits outperformed for the quarter.

Outlook

Looking ahead, fundamental factors remain supportive. Growth has been roughly 2–3% for the last 3 years, most recently delivering 2.50% in 4Q24. The labor market is healthy with only 4.10% unemployment. And on the consumer side, balance sheets remain healthy.

That said, survey data has indicated tariffs have negatively impacted both business and consumer sentiment. We have already seen consumers pull back (negative growth numbers in both Personal Consumption Expenditure (PCE) and retail sales numbers for January) and we will likely see a similar reaction on the business investment side. Even if tariffs are watered down, the associated uncertainty will remain a headwind.

That said, while a recession is not our base case, the probability has clearly increased. While there will likely be an impact on personal consumption and investment, household and corporate balance sheets still remain healthy. In addition, the downside to growth should be limited as the Fed has the room to cut rates, especially if employment numbers weaken. However, much depends on how much, and for how long, the announced tariffs remain in place.

Over the past several quarters, we have been constructive on fundamental factors, but believed valuations were ignoring potential risks. As a result, we came into the quarter positioned with a higher quality bias. While spreads have widened, the macro-outlook has clearly weakened. We continue to remain cautious in our positioning and prefer high-quality assets, while we will to look to add market risk should spreads widen further.

Read our strategy brief

The **Bloomberg Intermediate Government/Credit Bond Index** is a total return index that measures the non-securitized component of the US Aggregate Index with less than 10 years to maturity. The index includes investment grade, US dollar-denominated, fixed-rate treasuries, government-related and corporate securities Index returns do not reflect fees, brokerage commissions, taxes or other expenses of investing. **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.

The Composite performance information represents the investment results of a group of fully discretionary accounts managed with the investment objective of outperforming the benchmark.

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