Voya Multi-Strategy Fixed Income SMA

Blended multi-asset, intermediate-maturity and investment-grade credit strategy

Strategy Overview

A multi-strategy fixed income style that combines Voya Intermediate-Maturity Fixed Income SMA with an embedded mutual fund, Voya Investment Grade Credit. Voya Investment Management may invest up to 40% of a client's assets in the embedded Voya Investment Grade Credit Mutual Fund.

Performance

For the quarter, the Voya Multi-Strategy Fixed Income SMA (the "SMA") outperformed its benchmark, the ICE Bank of America U.S. Corporate and Government 1-10 Year index (the "index").

Portfolio Review

Duration and curve positioning contributed to performance as yields rose during the quarter, most notably in the intermediate part of the curve, where we maintained the bulk of our underweight.

Our continued overweight in corporate bonds had little effect on relative performance as wider spreads mostly offset the additional yield. However, security selection within corporates contributed to outperformance for the quarter.

Market Review

Yields fluctuated during the quarter in a tug-of-war between slowing growth and elevated inflation concerns, that ended in a draw. Early in the period, yields declined, reflecting global economic concerns related to the impact of the Covid-19 Delta variant. Yields then rose in response to ongoing worries about the outlook for inflation. The 10-year U.S. Treasury yield finished the quarter 0.02% higher at 1.49%. Muted Treasury returns set the tone across fixed income sectors for the quarter, and excess returns were mixed. Corporate bond spreads were modestly wider across the credit spectrum. Higher-quality bonds slightly trailed, while the additional yield and spread cushion in high-yield (HY) supported positive excess returns. The index returned -0.03% in the third quarter and -0.82% year-to-date (YTD).

Outlook and Current Positioning

Though growth expectations in the United States remain resilient, headwinds have emerged, leading to downward revisions for 3Q21. While valuations remain on the tighter end, fundamentals remain supportive for risk-taking. We trimmed some overweights where we believe further upside is limited, and we would view bouts of spread widening as opportunities to add higher-quality risk.

With the Federal Reserve (the "Fed") now signaling rate hikes no later than 2023, we see upward pressure on long-term yields. As expected, inflation will remain a key driver for rates going into year-end and next year. While we see a higher inflation baseline, ultimately, we do not expect structural inflation to take hold, as that could create a significant headwind for fixed income investors. As a result, we expect the upside risk to the 10-year Treasury yield to be up to 2% in the coming quarters.

Principal Risks

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, economic, 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.

Benchmark

Returns are benchmarked to The ICE Bank of America U.S. Corporate Government 1-10 Year Index, which does not incur management fees, transaction costs, or other expenses associated with a composite portfolio. The ICE Bank of America U.S. Corporate Government 1-10 Year Index measures the performance of corporate and government bonds with a time to maturity between one and ten years. It is not possible to invest directly in an unmanaged index. 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. Index returns do not reflect fees, brokerage commissions, taxes or other expenses of investing. Investors cannot invest directly in an index. Source: BofA, used with permission. BofA is licensing the BofA indices and related data "as is," makes no warranties regarding same, does not guarantee the suitability, quality, accuracy, timeliness, and/or completeness of the BofA indices or any data included in, related to, or derived therefrom, assumes no liability in connection with their use, and does not sponsor, endorse, or recommend Voya, or any of its products or services.

We deem all third-party sources to be reliable, but cannot guarantee accuracy and completeness. Due to rounding, numbers presented throughout this document may not add up precisely to the totals provided and percentages may not precisely reflect the absolute figures.

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