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.

Investment Strategy

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 underperformed its benchmark, the ICE Bank of America U.S. Corporate and Government 1-10 Year index.

Portfolio Review

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 give overweight to these high-quality investment-grade (IG) 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.

Market Review

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 economic 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 normal and added momentum to the demand for risk assets.

Outlook and Current Positioning

Heading into 2021, the market backdrop for cyclical sectors is extraordinarily positive. 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 is more widespread. The recovery in services spending, coupled with resilience in goods demand, will usher in an extended period of synchronized above-trend global growth easing pressure on the income divide.

In the near-term, cyclical sectors are relatively attractive. We believe that a rebound in economic growth, fostered by a duality of fiscal and central bank support, will push spreads uncomfortably tight in 2021. However, we also recognize the market seems to be 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, ultimately the vaccine 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 fragility 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.

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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