

Focus on Short-Duration, U.S. Non-Investment Grade Credit

Strategy overview

Capital preservation emphasis, investing in high-yield corporate debt while seeking to minimize credit, liquidity, and interest rate risks.

Key takeaways

- The high yield (HY) market remains well positioned to withstand an increasingly dynamic macro environment, with particular attractiveness exhibited by shorter-duration issues due to their inherently lower interest rate risk.
- For the quarter, the Fund outperformed the benchmark on a net asset value (NAV) basis.
- Looking ahead, asset class default expectations are projected to remain low due to several supporting factors including minimal refinancing risk in 2024 and 2025.

Portfolio review

The HY bond market advanced in the second quarter of 2024. First-quarter earnings results were better-than-expected, with most companies beating top- and bottom-line forecasts, which helped to further boost full-year 2024 and 2025 earnings growth estimates. Macroeconomic data released over the period was mixed. Gross domestic product (GDP) growth surpassed forecasts, inflation measures progressively eased, consumer confidence improved and monthly payrolls remained strong. However, the manufacturing sector continued to contract, housing data came in weak and retail sales consistently underwhelmed. Against this backdrop, the U.S. dollar strengthened, the Treasury market gained and the U.S. Federal Reserve held interest rates steady at both Federal Open Market Committee (FOMC) meetings during the period. The market's expectation for the first interest rate cut was further pushed out to September, with another expected by year end.

The ICE BofA US High Yield Index returned 1.09% for the period. BB rated bonds returned 1.32%, outperforming B and CCC rated bonds, which returned 1.03% and 0.18%, respectively. Spreads widened to 321 basis points (bp) from 315 bp, the average bond price fell to 92.98, and the market's yield rose to 8.10%. Most industries closed higher for the period. Healthcare, chemicals and food producers outperformed whereas telecoms, cable and media underperformed. Trailing 12-month default rates declined to 1.79% (par) and 1.80% (issues). The upgrade to downgrade ratio increased to 1.5. New issuance saw 124 issues priced, raising \$77.9 billion in proceeds. Mutual fund flows were estimated at 0.9 billion.

For the quarter, the Fund outperformed the benchmark on a NAV basis. At the industry level, air transportation, support-services and insurance made the largest contributions to performance in the period. In contrast, media, utilities and telecommunications were the largest detractors from performance.

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.

Current strategy and outlook

2023's economic momentum has carried over into 2024.

Economic tailwinds include a healthy labor market, steady consumption, government spending, elevated household net worth, an end to the rate hike cycle and accelerating earnings. Economic headwinds include persistent inflation, restrictive monetary policy, prolonged yield curve inversion, less personal savings as well as United States and international political risks, among others.

The U.S. HY market, yielding more than 8%¹, offers the potential for equity-like returns but with less volatility.

Credit fundamental factors are stable, near-term refinancing obligations remain low and management teams continue to prioritize debt reduction. Given these factors, defaults should remain well below historical cycle peaks. The market's attractive total return potential is a function of its discount to face value and higher coupon, which

also serves to cushion downside volatility. Notably, after recording an annual decline, the HY market has historically delivered two consecutive years of positive returns in six of the seven cases², and forward 12- and 24-month return projections based on the current market yield have been consistent with mid to high single digits³.

Longer-duration issues are the most likely to be impacted by high and volatile rates, but the overall HY market should have a dampened response due to its larger coupon relative to other fixed income alternatives. As a result, U.S. HY bonds contribute from both a diversification and a relative-performance perspective, offering a very compelling yield opportunity.

The Short Duration High Income strategy remains an attractive fixed income solution without taking excess credit risk. The shorter maturity puts securities first in line to repayment at par, and the strategy lessens price volatility that may be highly amplified in passively managed strategies.

¹Source: ICE Data Services; data as of June 2024.

²Source: ICE Data Services; data as of December 2022.

³Source: JP Morgan; data as of October 2022.

The **ICE BofA 1-3 Year US Treasury Index** is an unmanaged index that tracks the performance of the direct sovereign debt of the U.S. Government having a maturity of at least one year and less than three years. **Investors cannot directly invest in an Index.**

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