Voya Strategic Income SMA

Unconstrained, multi-sector focus on global risk-adjusted opportunities

Strategy overview

An unconstrained, multi-sector fixed income strategy focused on maximizing total return by seeking risk-adjusted opportunities across the globe.

Key takeaways

- The first quarter of 2025 was marked by volatility in the fixed income markets, primarily driven by tariff policies and associated economic uncertainty.
- Looking ahead, fundamental factors remain supportive.
- That said, while a recession is not our base case, the probability has clearly increased.

Portfolio review

For the quarter ending March 31, 2025, the Voya Strategic Income SMA outperformed the custom benchmark on a gross-of-fees but underperformed on net-of-fees basis. Duration and yield curve positioning detracted from returns, while sector allocation and security selection added.

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.

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. President Trump announced tariffs on Mexico, Canada and China at his inauguration, with tariffs on China going into effect on February 1. Tariffs on Mexico and Canada were delayed until March 4, and additional tariffs on China were imposed on the same day. The uncertainty surrounding these tariffs, along with the potential for an escalating trade war, negatively impacted risk assets, with credit spreads finishing the quarter wider, 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.

The U.S. Federal Reserve maintained a cautious stance in the first quarter of 2025, resisting further interest rate cuts after having cut rates by 100 basis points in 2024. The Fed cited stronger than expected economic data, including robust job gains and a low unemployment rate, as reasons for not cutting rates further. However, in response to tariffs, the updated Summary of Economic Projections (SEP) released following the March meeting showed the median projection for growth moving lower. Meanwhile, the median projection for inflation moved higher, however there was no change to rate expectations, with the median projection still indicating one to two cuts through year end, and another two cuts in 2026.

In markets, spreads began to widen in mid-February when tariff threats intensified. Investment grade (IG) corporates and asset-backed securities (ABS) 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. Agency mortgage-backed securities (MBS) experienced a roller-coaster ride, but ultimately finished the quarter flat. Premium-priced pools (coupons of 6% or higher) outperformed, while lower coupons, particularly 2.5%, performed negatively. Commercial mortgage-backed securities (CMBS) was flat at the benchmark level, but similar to HY, higher carry allowed non-agency to outperform agency, and below IG outperformed IG. Non-agency residential mortgage-backed securities (RMBS) was a notable exception, with the sector outperforming, led by Prime Jumbo.

Duration and yield curve positioning detracted from returns, while sector allocation and security selection added. Our overweight to Treasuries and cash was additive as spread sectors saw more volatility over the quarter. Still, sector allocations to CMBS, HY corporates and non-agency RMBS contributed. Sector allocation within IG corporates detracted. We maintained overweights to CMBS, ABS, non-agency RMBS and emerging markets (EM) hard currency sovereigns, while staying underweight in IG and HY corporates.

Current strategy and outlook

Looking ahead, fundamental factors remain supportive. Growth has been roughly 2–3% for the last 3 years, most recently delivering 2.5% in 4Q24. The labor market is healthy with only 4.1% 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.

Disclaimers

The custom benchmark is a blend of 80% the Bloomberg US Corporate Bond 1–5 Year index and 20% the Bloomberg US High Yield index. Indexes do not reflect fees, brokerage commissions, taxes or other expenses of investing. **Investors cannot directly invest in an index.**

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Past performance does not guarantee future results.

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The strategy employs a quantitative investment process. The process is based on a collection of proprietary computer programs, or models, that calculate expected return rankings based on variables such as earnings growth prospects, valuation, and relative strength.

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