Commentary | 2Q20

Voya GNMA Income Fund

Access High Quality Mortgage Securities

Strategy overview

Primarily invests in Government National Mortgage Association (GNMA) securities with maturities in excess of one year and which have the same credit quality as U.S. Treasury securities, but higher yields to compensate for prepayment uncertainty.

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.

Key Takeaways

- During the quarter, governments implemented significant monetary and fiscal policy responses to the challenges the coronavirus pandemic posed to the financial system. As a result, 2Q20 concluded with signs of economic rebound and improving consumer confidence. Decisive and timely policy actions, such as accommodative interest rates and balance sheet expansion executed by central banks, played an important role in supporting the initial stages of recovery. As of June 30, 2020, the U.S. Federal Reserve (Fed) reportedly owned approximately $4 trillion of U.S. Treasurys and about $2 trillion of agency mortgage-backed securities (MBS).
- The overall agency MBS index outperformed duration-neutral Treasurys by 0.38%, mostly due to unprecedented monetary policy support as the Fed pledged to continue buying and reinvesting into mortgages. Outperformance was uneven across the coupon stack as Fed buying provided stimulus for lower coupon bonds, while faster prepayments caused some higher coupon bonds to lag. GNMA collateral and conventional mortgages, e.g., FNMA and FHLMC, benefited from the Fed's daily purchases. The GNMA index subcomponent returned 0.59% outright, with excess returns of 0.36% over duration-equivalent Treasurys.
- For the quarter, the Fund outperformed its benchmark, the Bloomberg Barclays GNMA index.

Current Strategy and Outlook

At the start of the quarter, Fed quantitative easing (QE) purchases of U.S. Treasurys and mortgages quickly tamed widening yield spreads; moreover, persistent buying since then has maintained mortgage spreads well below the distressed levels of mid-March.

On a technical basis, the Fed will continue to be a major market participant as it confirmed a pace of $40 billion of net purchases per month, which could result in net purchases of approximately $800 billion by the end of the year. In addition to central bank purchases, bank demand for agency MBS remains robust with strong deposit growth and reduced commercial and industrial (C&I) loans.

In our view, mortgage valuations remain fair despite prepayment speeds exceeding the expectations of many market participants. Mortgage prepayments have risen each month as interest rates have hit new lows and perceived "frictions" in the loan process have been minimal. Mortgage refinancing has seemingly shrugged off COVID-19 related disruptions such as high unemployment, elevated delinquencies, social distancing restrictions and mortgage policy changes. Mortgage originators monetized the overall increase in refinancing demand, which helped them maintain industry employment and shore up capital positions during the crisis. In the short term, prepayment speeds are expected to remain elevated as the government-sponsored enterprises (GSEs) and the FHFA continue to legislate credit underwriting flexibilities and attempt to maintain the smooth functioning of mortgage closings. Mortgage lenders also have indicated robust volumes for the near future as mortgage rates hover near all-time lows.

Portfolio Review

Benchmark-like holdings, specified pools and exposure to "to-be-announced" securities (TBAs) benefited Fund performance during the quarter as a result of the Fed's QE program. The Fed's strong technical tailwind improved "convexity," i.e., exposure to the pace of interest-rate changes, for mortgage investors. The Fed also confirmed its support for the asset class until financial markets improve and stabilize. The Fund's outperformance was mostly attributed to its holdings of collateralized mortgage obligations (CMOs), which recovered marginally as the mortgage market was healing from financial stress. The Fund also benefited slightly from yield-curve exposure.

The **Bloomberg Barclays Mortgage Backed Securities Index** is an unmanaged index composed of fixed-income security mortgage pools sponsored by GNMA, FNMA and FHLMC, including GNMA Graduated Payment Mortgages. The Index does not reflect fees, brokerage commissions, taxes or other expenses of investing. **Investors cannot invest directly in an index.**

SEC fund returns assume the reinvestment of dividends and capital gain distributions and include a sales charge. Net Asset Value fund returns assume the reinvestment of dividends and capital gain distributions. Total return for less than one year is not annualized. Results would have been less favorable if the sales charge were included.

Principal Risks: All investing involves risks of fluctuating prices and the uncertainties of rates of return and yield. As **Interest Rates** rise, bond prices fall, reducing the value of the Fund's share price. To the extent that the Fund invests in **Asset-Backed, Mortgage-Backed or Mortgage-Related Securities**, its exposure to prepayment and extension risks may be greater than investments in other fixed-income securities. While the Fund invests in securities guaranteed by the U.S. Government as to timely payments of interest and principal, the Fund shares are **Not Insured or Guaranteed**. Other risks of the Fund include but are not limited to: **Credit Risks, Extension Risks, Other Investment Companies' Risks, Prepayment Risks, U.S. Government Securities and Obligations Risks and Securities Lending Risks. Investors should consult the Fund's Prospectus and Statement of Additional Information for a more detailed discussion of the Fund's risks. An investment in the Fund is not a bank deposit and is not insured by the Federal Deposit Insurance Corporation, the Federal Reserve Board or any other government agency.**

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The opinions, views and information expressed in this commentary regarding holdings are subject to change without notice. The information provided regarding holdings is not a recommendation to buy or sell any security. Portfolio holdings are fluid and are subject to daily change based on market conditions and other factors.

The Fund discussed may be available to you as part of your employer sponsored retirement plan. There may be additional plan level fees resulting in personal performance to vary from stated performance. Please call your benefits office for more information.

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