Fixed Income Perspectives

U.S. Consumers Roar Back: How to Prepare for the "Great Re-Opening"

Since the publication of our 2021 fixed income outlook, inflation (including addressing the market's fear of inflation) has occupied much of our focus. Over the last several months, we have made our case and stand firmly behind our view that inflation—while likely to continue to rise in the near term—does not present a long-term structural risk. We believe sizable increases in inflation will be temporary and transitory.

Of course, investors' increased focus on inflation signifies another important point: Consumer spending is back in full force. During the depths of the 1Q20 market dislocation we argued that U.S. consumers were in a much better position than in the period that led up to the 2008 financial crisis. Prior to the global pandemic taking hold and grinding the world to a halt, consumers were de-leveraging and the banking system was fundamentally sound with high capital ratios. In addition, unlike the response in 2008 (later dubbed a "Wall Street bailout"), the stimulus in response to COVID-19 was heavily tilted towards the hardest hit segments of the economy, i.e. consumers and small businesses.

In April of 2020, we published *Opportunistic Securitized Credit: How to Prepare for the Great Consumer Rebound*, highlighting why securitized credit was a compelling way to gain access to the eventual rebound of the U.S. consumer. Of course, since that time we have been positioning our own multi-sector portfolios with overweight positions to securitized credit and remain positioned this way today.

The nuance in our broader relative value positioning between the pre- and post-COVID environments is our more favorable view on other spread sectors. Prior to COVID, we believed corporate credit was later in its cycle and relatively less attractive. However, unlike previous recessions that ended in forced de-leveraging, the Fed's actions to backstop corporate credit markets meant that the COVID-19 dislocation did not wipe away leverage or temper issuance trends from the corporate credit arena. In fact, corporate issuance has spiked as companies are taking advantage of low yields to issue new debt. Corporations, in aggregate, seem to be using this new debt to strengthen their liquidity and defend their competitive position in the marketplace (uses that the debt market does not view as threatening). Accordingly, our view is that corporate health will improve as revenue growth outpaces interest costs and competitive forces drive innovation and profitability—thus we are more constructive on corporate credit.

In our view, the combination of our strategic overweights to securitized and corporate credit leave our portfolios well positioned to capitalize on the continued re-opening of the U.S. economy.

"During the 1Q20 market dislocation we argued that Securitized Credit was a compelling way to gain access to the eventual rebound of the U.S. consumer—our view today remains the same."

Bond Market Outlook

Global Rates: long-end rates led by the 10-year Treasury will move towards 2% but not in a linear manner

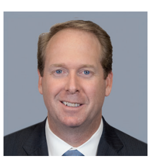
Global Currencies: U.S. dollar trends weaker against DM, EM currencies

Investment Grade: remain overweight favoring BBBs, while steepening of curve has led to idiosyncratic opportunities in front end

High Yield: positive fundamental outlook warrants overweight, but security selection remains key

Securitized: maintain preference to securitized credit over Agency RMBS as fundamentals continue to improve, particularly CLOs and CMBS

Emerging Markets: EM growth currently unsynchronized; headline inflation mixed; fiscal behavior and strategy will remain under scrutiny as renewed lockdowns loom



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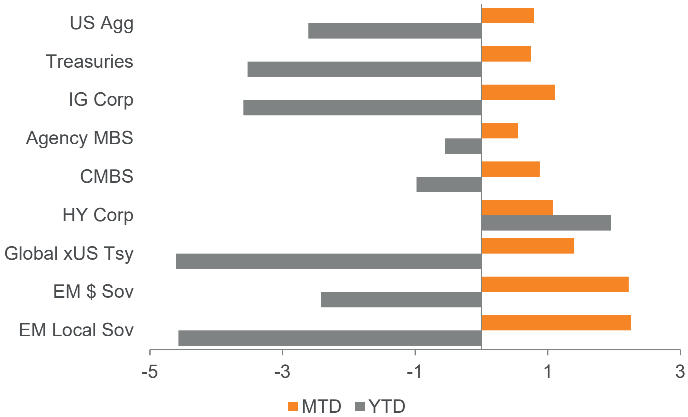
CIO Fixed Income

Voya Investment Management's fixed-income strategies cover a broad range of maturities, sectors and instruments, giving investors wide latitude to create a new portfolio structure or complement an existing one. We offer investment strategies across the yield curve and credit spectrum, as well as in specialized disciplines that focus on individual market sectors. We build portfolios one bond at a time, with a critical review of each security by experienced fixed income managers.

Rates, Spreads and Yields

Fixed Income Sector Total Returns



		30-Apr	31-Mar	1Y Low	1Y High
Yields	US 2 Yr	0.16	0.16	0.11	0.23
	US 10 Yr	1.63	1.74	0.51	1.74
	GER 10 Yr	-0.20	-0.29	-0.64	-0.19
	JPN 10 Yr	0.10	0.10	-0.03	0.16
	EM Local Sov	4.94	4.99	4.19	5.06
Spreads	IG Corp	88	91	88	213
	Agency MBS	7	12	7	75
	CMBS	105	112	104	261
	HY Corp	291	310	290	757
	HY x-Egy Corp	275	289	270	684
	EM $ Sov	339	354	335	610

As of 04/30/21. Past performance is no guarantee of future results. Source: Bloomberg, Bloomberg/Barclays, JP Morgan and Voya.

Sector Outlooks

Global Rates and Currencies

In the U.S., attention remains on how fast excess savings are spent as the economy reopens. On the fiscal side, we're keeping a close eye on the debates on how the American Jobs Plan and the American Family Plan will be funded, as we think the outcomes will drive markets.

Meanwhile, Europe has so far underperformed the vaccine rollout, which has led to downward growth revisions. However, there is plenty of cause for optimism with cases dropping, vaccination rates increasing and activity still holding up, and in some cases surprising to the upside. Nonetheless, due to the dominance of the more infectious B.1.1.7 COVID-19 strain and continued pressure on the health systems, we expect lockdown restrictions to be extended until early May. That said, while we expect subdued activity through April, we see the Euro area on track to start reopening in May, which could pave the way for a strong rebound into the summer.

Investment Grade (IG) Corporates

The fundamental picture looks firm entering 1Q21 earnings season and is expected to further support the positive macro story. We continue to see an uptick in merger and acquisition (M&A) announcements and a gradual move towards shareholder returns, and while leverage remains high, we expect IG-rated issuers to focus on balance sheet repair in 2021. We are positive on market technical factors, as the move higher in rates pulled forward a large number of deals leaving the expected pipeline for the rest of the year likely lower. Increased debt-funded M&A remains a wildcard for supply expectations. We continue to favor BBB rated issuers given the extra spread pick up, increased focus on balance sheet repair and lower M&A risk. Additionally, the steepening in the yield curve has created idiosyncratic opportunities among high quality issuers in the front and intermediary segments of the curve. In terms of sectors, we remain overweight to financials given their more defensive posture, particularly the money center banks. We also continue to like telecommunications, utilities and technology.

High Yield

Credit fundamentals for the high yield market are improving as we continue to see quarter-over-quarter momentum as the vaccine is distributed and the United States continues to reopen. There is still upside in operating results for COVID-impacted issuers, but not as much room for upside in their bond prices. We are also seeing strength in some non-COVID impacted consumer and industrial issuers. Issuer ratings have generally stabilized, and defaults are trickling through, although a new wave is not currently on the horizon. Overall, valuations are reasonable though moving to uncomfortably tight levels. Relative to energy, we remain cautious on the oil field services sector given the challenged fundamentals, though we continue to be overweight to exploration and production (E&P) issuers. Sectors we favor include building materials, which has benefited from a healthy housing market; chemicals; and media and entertainment. In a market where investors are searching for yield, we remain focused on finding pockets of value in this increasingly tight market.

Securitized Assets

Agency MBS performed well in March, posting positive excess returns across most cohorts. Across issuers, GNMA collateral outperformed conventional loans, supported by improving overseas demand and the lowered risk of any near-term reduction in mortgage insurance premiums. For 2021, net supply projections increased to be well over $600 billion from between $400-500 billion earlier in the year, on the ongoing robust housing market and cash-out activity driven by the low rate environment.

After finally shifting our tactical outlook for mortgage credit to negative in March, we maintain this view for April, but continue to recognize that low mortgage rates, a robust housing market, and overall solid consumer credit worthiness will continue to foster sponsorship. Indeed, housing markets are firmly in expansion mode - a clear beneficiary of the pandemic – and mortgage credit will continue to be driven positively by housing market expansion and credit availability.

CMBS momentum continued strong overall from its solid start to the year, despite a partial derailment of its rally due to the volatility uptick across fixed income for much of March. This only left the sector cheaper and poised to continue its spread recovery heading into the second quarter. An increasingly busy new issuance calendar represents a potential challenge, but at this stage is net favorable given the positive fundamental implications. Reflationary impulses from monetary and fiscal policy and optimism from the vaccine roll-out are also extremely supportive of CRE fundamentals. Questions around the viability of the office property types - a potentially lasting pandemic carryover - is a key risk that is likely to begin to impact the markets, but we believe it will likely remain contained.

Non-benchmark ABS will continue to perform well fundamentally, and as a short duration sector, should outperform as rate volatility drives periodic bouts of risk aversion. We maintain our assessment as positive and increase our conviction. The fiscally improved profile of the U.S. consumer coupled with ABS structural dynamics were already believed to provide the sector with solid footing to withstand this sustained period of elevated, albeit improving, unemployment. Indeed, recently enacted stimulus is acting as a fortifying bridge to the end of the pandemic.

Emerging Market (EM) Debt

The key themes impacting EM debt over the coming months include the momentum and strength of the U.S. economic recovery, rates and the dollar; the strength of commodities supported by rising global trade and U.S. growth spill over; and global capital flows to EM, which we believe will remain positive as global financial conditions remain favorable. By and large, we are seeing a multi-speed, unsynchronized growth rebound across EM. Headline inflation was mixed, with higher rates in parts of LATAM, Central and Eastern Europe, and the Middle East and Africa. Lastly, fiscal constraints and responses remain a key issue, as consolidation may be delayed due to renewed lockdowns and lengthy vaccine roll-outs.

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