

Fixed Income Perspectives: Facing Fiscal Forks in the Road

Markets are holding steady despite mounting uncertainty, as investors, the Fed, and corporate America wait for clarity on fiscal policy and the direction of the economy.



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Risk everywhere, but markets hold steady

Despite a backdrop that would normally rattle investors—geopolitical turmoil, fiscal uncertainty, and an unresolved trade landscape—risk assets have continued to grind higher. Under the surface, the market’s resilience reflects a combination of factors: labor markets remain strong, inflation appears to be contained, consumers are holding up, and capital markets are still rebounding from the steep correction in April. These dynamics have provided a floor for sentiment even as headline risks persist.

Everyone is watching the same clock

As expected, the Federal Reserve kept rates steady, and its June 18 meeting came and went with little market reaction.

Like most investors and corporate leaders, the Fed is waiting for clarity from Washington. On July 4, Treasury Secretary Scott Bessent is expected to finalize the administration’s long-anticipated tax and spending package—the so-called “big, beautiful bill.”

The proposed legislation includes a range of pro-business provisions. If those survive and tariffs are set at manageable levels, it could unlock a wave of business investment and hiring. But if talks stall or punitive trade measures take hold, low sentiment may finally translate into economic weakness. In that sense, July 4 may serve as a hinge point for the second half of the year—both for economic momentum and the Fed’s policy path.

U.S. macro summary

	Period	Actual	Estimate	Previous	Next release	Voya’s view
U.S. GDP	1Q25	-0.2%	-0.3%	2.4%	06/26/25*	Tariffs may weigh on growth, but full-year 2025 GDP will likely remain positive.
Nonfarm payrolls	May	139k	130k	147k	07/03/25	The labor market should continue to moderate, though companies may be less inclined to lay off employees in response to waning demand after going through the post-Covid labor shortage.
U.S. Unemployment	May	4.2%	4.2%	4.2%	07/03/25	Unemployment is off recent lows but remains low by historical standards.
Wage growth¹	May	0.4%	0.3%	0.2%	07/03/25	Wage growth should continue to decelerate as the labor market moderates.
Core PCE²	Apr	0.1%	0.1%	0.1%	06/27/25	Tariffs will likely result in higher goods inflation but be at least partially offset by easing services and shelter inflation.

As of 05/31/25. Source: Bloomberg, FactSet, Voya IM.

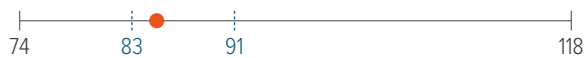
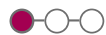
What this means for relative value

Against this backdrop, we believe securitized credit generally offers more compelling risk-adjusted opportunities than corporate credit. Securitized sectors tend to be more insulated from the policy uncertainty dominating today’s macro environment, and several areas—particularly commercial mortgage-backed securities—remain in the early stages of recovery, offering meaningful upside potential. On the corporate side, we remain cautious toward lower-quality issuers, where signs of strain are starting to emerge. With spreads failing to fully compensate for that risk, we prefer to stay up the quality spectrum with a bias towards shorter-dated bonds.

Sector outlooks

OAS (bp): — 1yr range; --- 1mo range; ● current

Investment grade corporates



- While corporate fundamentals remain strong, we believe technicals, macroeconomic factors and valuations should have a larger impact on investment grade corporate spreads.
- With 88% of S&P 500 companies reported, 1Q25 earnings are on track for 12% EPS growth and 4% revenue growth.
- We remain underweight BBBs and favor higher quality names in this environment. From a sector perspective, we are overweight financials and utilities and underweight industrials.

High yield corporates



- While trade policy tension has deescalated for the time being, high yield spreads are near the tight of this market cycle and risk is skewed to the downside.

Yields (%)

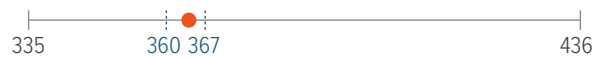
	05/31	03/31	1yr range
Fed funds rate	4.33	4.33	4.33 – 5.33
U.S. 2yr	3.89	3.90	3.54 – 4.93
U.S. 10yr	4.40	4.21	3.62 – 4.79
GER 10yr	2.50	2.74	2.03 – 2.90
JPN 10yr	1.49	1.49	0.78 – 1.58
EM local sovereign	6.07	6.30	6.07 – 6.64

As of 05/31/25. Sources: Bloomberg, JP Morgan, Voya IM. See disclosures for more information about indices. **Past performance is no guarantee of future results.**

Relative value: ● Negative ● Neutral ● Positive

- From a technical perspective, high yield fund flows remained supportive, and new issue supply continued to underwhelm.
- While corporate balance sheets entered the tariff-induced uncertainty in a solid position, businesses and consumers are likely to respond with lower spending, hiring and investment until future trade policy is more clearly defined.

Senior loans



- Fundamentals for senior loan issuers remain in relatively decent shape and are starting from a place of strength, particularly among higher-rated borrowers.
- We remain focused on the secondary effects of tariffs, as we are more concerned with how policy uncertainty and sentiment could affect business investment or consumer behavior.
- We expect downgrades will remain elevated in the near term given the increased concentration of lower-rated issuers in the market that are susceptible to downgrade risk.

Agency mortgages ○●○



- **Despite the recent market volatility and technical moves in the mortgage space, we believe carry remains attractive.**
- However, large, fast-money trades have the potential to create volatility in the near term.
- Longer-term, we believe strong fundamentals and a limited new supply backdrop should support mortgage returns going forward.

Securitized credit ○○●

ABS



CLO AAA



CLO BBB



RMBS

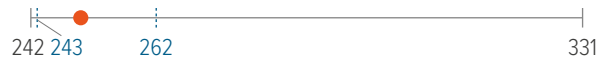


CMBS (non-agency)



- **The fiscally improved profile of the U.S. consumer is in place, although the low-income cohort is challenged. Our bias toward high-quality assets across sub-sectors remains.**
- As other fixed income sectors richened over the course of May, **ABS** is again offering relative value on a risk adjusted basis.
- While spreads have retraced slightly, **CMBS** remains attractive and we continue to favor seasoned subordinate credit.
- Strong mortgage credit fundamentals and improved valuations should enable **RMBS** to overcome pockets of weakness emerging in the housing market.
- Weakening technicals and fundamentals make the **CLO** space susceptible to underperformance. We maintain a heavy bias toward high-quality managers and strong underlying collateral pools.

Emerging market debt ○●○



- **Elevated real yields and softer domestic conditions suggest many EM central banks have room to continue cutting rates, but external factors may limit their flexibility.**
- Absolute yield levels remain attractive relative to historical levels despite the recent rally.
- Fund flows into the sector recovered in May after the EM market experienced significant outflows in April.

Glossary of terms

OAS: option-adjusted spreads

ABS: asset-backed securities

CMBS: commercial mortgage-backed securities

RMBS: residential mortgage-backed securities

CLO: collateralized-loan obligations

PCE: personal consumption expenditure

YTM: yield to maturity

¹ Average hourly earnings (month-over-month).

² Month-over-month data, personal consumption expenditures price index.

* Final reading for Q125.

A note about risk

The principal risks are generally those attributable to bond investing. All investments in bonds are subject to market risks as well as issuer, credit, prepayment, extension, and other risks. The value of an investment is not guaranteed and will fluctuate. Market risk is the risk that securities may decline in value due to factors affecting the securities markets or particular industries. Bonds have fixed principal and return if held to maturity but may fluctuate in the interim. Generally, when interest rates rise, bond prices fall. Bonds with longer maturities tend to be more sensitive to changes in interest rates. 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.

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One cannot directly invest into an index. Index information: U.S. Agg: Bloomberg U.S. Aggregate Bond Index. Treasuries: Bloomberg U.S. Treasury Index. IG corp: Bloomberg Corporate Bond Index. MBS: Bloomberg Securitized – U.S. MBS Index. CMBS: Bloomberg CMBS ERISA Eligible Index. HY corp: Bloomberg U.S. Corporate High Yield: 2% Issuer Cap Index. EM \$ Sov: JP Morgan EMBI Global Diversified Index. EM local sov: JP Morgan GBI-EM Index.

The Bloomberg U.S. Aggregate Bond Index is a widely recognized, unmanaged index of publicly issued investment grade U.S. government, mortgage-backed, asset-backed and corporate debt securities. Index returns do not reflect fees, brokerage commissions, taxes or other expenses of investing. Indexes are unmanaged and not available for direct investment.

The Bloomberg U.S. Treasuries Index measures the performance of U.S. Treasury securities. Index returns do not reflect fees, brokerage commissions, taxes or other expenses of investing. Index returns do not reflect fees, brokerage commissions, taxes or other expenses of investing. Indexes are unmanaged and not available for direct investment.

The Bloomberg US Corporate Index measures the investment grade, fixed-rate, taxable corporate bond market. It includes USDdenominated securities publicly issued by US and non-US industrial, utility, and financial issuers. The index is a component of the US Credit and US Aggregate Indices, and provided the necessary inclusion rules are met, US Corporate Index securities also contribute to the multi-currency Global Aggregate Index. The index includes securities with remaining maturity of at least one year. The index was created in January 1979, with history backfilled to January 1, 1973.

The Bloomberg U.S. Corporate High Yield - 2% Issuer Capped Index is an unmanaged index comprised of fixed-rate non-investment grade debt securities that are dollar denominated and non-convertible. The index limits the maximum exposure to any one issuer to 2%. Index returns do not reflect fees, brokerage commissions, taxes or other expenses of investing. Indexes are unmanaged and not available for direct investment.

The Bloomberg 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. Index returns do not reflect fees, brokerage commissions, taxes or other expenses of investing. Indexes are unmanaged and not available for direct investment.

The Bloomberg CMBS: Erisa Eligible Index measures the market of US Agency and US Non-Agency conduit and fusion CMBS deals with a minimum current deal size of \$300mn, and only contains bonds that are ERISA eligible under the underwriter's exemption. The index is a component of the Bloomberg US Aggregate Index, with history backfilled to July 1, 1999.

The J.P.Morgan Emerging Markets Bond Index Global ("EMBI Global") tracks total returns for traded external debt instruments in the emerging markets, and is an expanded version of the JPMorgan EMBI+. As with the EMBI+, the EMBI Global includes USdollar-denominated Brady bonds, loans, and Eurobonds with an outstanding face value of at least \$500 million. It covers more of the eligible instruments than the EMBI+ by relaxing somewhat the strict EMBI+ limits on secondary market trading liquidity. Index returns do not reflect fees, brokerage commissions, taxes or other expenses of investing. Indexes are unmanaged and not available for direct investment.