Fixed Income Perspectives

While we expect a higher inflation baseline, ultimately, we do not expect that inflation will cause the Fed to dramatically change its course

Bond Market Outlook

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

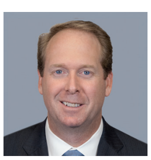
Global Currencies: U.S. dollar trends weaker against DM, EM currencies

Investment Grade: Fundamentals, technical picture remain firm, but valuations are less compelling; spreads to trade sideways in the near term

High Yield: Maintain positive stance, reserving dry powder for opportunities from possible summer weakness

Securitized: Continue to favor securitized credit sectors over Agency RMBS, with continued upside potential in CLOs, CMBS

Emerging Markets: EM continued its unsynchronized growth; headline inflation was 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.

Seven Themes for the Second Half of 2021

As we look ahead, we believe there are seven key themes that will play out in the second half of the year as we think about positioning across fixed income portfolios.

Global Growth

Reopening will drive synchronized U.S. and European recoveries, led in magnitude by the U.S., with emerging markets (EM) eventually benefiting as vaccinations become more prevalent. Increased investment in developed markets will boost productivity, largely offsetting demographic and other headwinds, resulting in more sustainable global growth.

Europe

The rebound in European growth, though above potential, will be constrained by the limited fiscal capacity of the European construct and will be insufficient to sustain the desired level of inflation. The most likely path to achieving the ECB's inflation goal is a weaker EUR, leaving the ECB intentionally behind the Fed.

China

The passing of Covid-19 marks the pinnacle of China's influence on global goods trade and commodity demand. With the recovery well underway, China will reign in policy support accepting a lower rate of growth as it seeks to shift the composition and prevent asset bubbles. A coordinated global pushback on China's trade and technology practices will lead to a broader distribution of global investment.

U.S. Policy

The gearing of all policy forms towards inclusive growth and more equitable outcomes inherently favors labor over capital. With the peak in fiscal support near, the composition of spending and funding becomes increasingly important. Investment in infrastructure paves the way for higher potential growth. Less productive forms of spending may boost medium-term growth but risk stoking inflationary undercurrents.

U.S. Inflation

Initial dislocations from reopening will recede, but the release of pent-up demand will expose ongoing cyclical inflationary pressures fueled by excess savings, labor frictions, and newfound corporate pricing power. Wage trends beyond Covid-impacted sectors will define the magnitude and durability of these influences. The waning disinflationary influence from globalized supply chains will result in a higher inflation baseline.

Fed

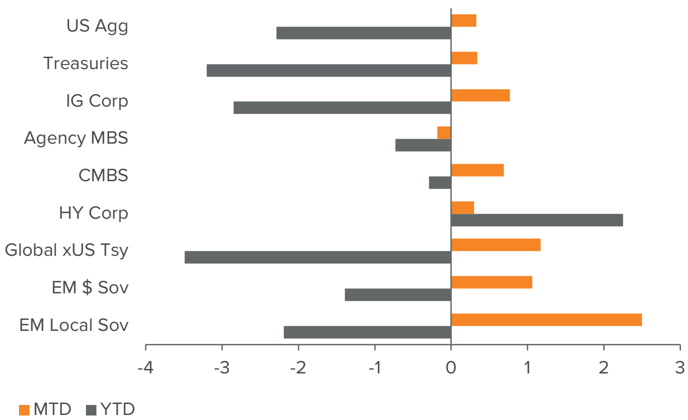
With a reinterpretation of its employment mandate to focus on inclusivity, the Fed will withdraw accommodation only in response to substantial progress on their labor objectives or direct evidence of sustained inflation. Increased political alignment of the Fed and Treasury, providing unprecedented fiscal and monetary support, will soothe markets in the near-term but risks long-term dependence on policy accommodation.

Markets

Late cycle market valuations have outpaced the economic reopening but visibility into continued growth will support valuations as the cycle ages. The abundance of liquidity globally increases the risk of asset price bubbles and distortions though the concentration in debt on government rather than private balance sheets lessens the risk of abrupt deleveraging.

Rates, Spreads and Yields

Fixed Income Sector Total Returns



		31-May	31-Mar	1Y Low	1Y High
Yields	US 2 Yr	0.14	0.16	0.11	0.23
	US 10 Yr	1.60	1.74	0.51	1.74
	GER 10 Yr	-0.19	-0.29	-0.64	-0.19
	JPN 10 Yr	0.09	0.10	0.01	0.16
	EM Local Sov	4.95	4.99	4.19	5.06
Spreads	IG Corp	84	91	84	171
	Agency MBS	16	12	7	75
	CMBS	98	112	97	246
	HY Corp	296	310	286	630
	HY x-Egy Corp	282	289	269	579
	EM $ Sov	333	354	332	509

As of 05/31/21. **Past performance is no guarantee of future results. Source: Bloomberg, Bloomberg/Barclays, JP Morgan and Voya.**

Sector Outlooks

Global Rates and Currencies

The U.S. continues to lead the developed market recovery, not least because it is also among the leaders in vaccination rollouts. And while payrolls had a disappointing showing in May, it paired perfectly with the hot CPI data to give the Fed an excuse to continue filibustering on taper talks. We expect this back and forth to continue in the coming months, helping move the 10-year Treasury towards 2% but not in a linear manner.

Like everything else with the pandemic and the economy, monitoring inflation risk requires context for the uniqueness of the environment created by the measures to contain the spread of COVID-19. Overall, the consensus concern seems to be that the increase in demand from re-opening and fiscal stimulus is not being met with sufficient labor supply. This concern leads investors to believe that rapidly rising labor costs and overall inflation will cause the Fed to tighten much sooner than it has indicated (mid/late 2023). However, this fear is playing out much differently across each industry and geographic region, as each state has a different timeline for rolling off unemployment benefits. To analyze this risk and prepare our portfolios, we are closely monitoring wage trends in areas less affected by COVID and focused on state-level wage data. While we expect a higher inflation baseline, ultimately, we do not expect that inflation will cause the Fed to dramatically change its course.

Investment Grade (IG) Corporates

The fundamental picture remains firm, with 1Q21 results coming in better than already raised expectations. 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 maintain our neutral stance on market technical factors, as supply is expected to moderate in the near term. Demand should remain firm as yields sit slightly higher and hedging costs remain low with the Fed on hold. Valuations look full at current levels and we expect spreads to trend sideways. We continue to favor BBB-rated securities 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 7-9 -year segment 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 favor telecommunications, utilities and technology.

High Yield Corporates

High yield bonds chugged along uneventfully through May, generally maintaining the solid gains they had through the first four months of year. Overall, new issue volume continues to be heavy yet well absorbed, even as retail outflows continue. So far, the year is playing out as expected: total returns are decent; excess returns are strong, and spreads are starting to get a little frothy with each rally. In a market where investors are searching for yield, we remain focused on finding pockets of value in this increasingly tight market. Sectors we favor include building materials, which has benefited from a healthy housing market; chemicals; and media and entertainment.

Securitized Assets

Despite lower volatility and a range-bound interest rate environment, Agency MBS continuously underperformed U.S. Treasuries in May due to a lack of technical support beyond the Fed's scheduled purchases. Mortgage origination's strong start to the year has already surprised most analyst expectations to the high side, as original net supply expectations were in the mid-$400 billion range, slightly below 2020's net supply of $506 billion. However, revised estimates now place 2021 net issuance at well over $600 billion due to strong HPA, elevated home sales and cash-out refinancing, and higher securitization rates.

We maintain a more cautious tactical sentiment for mortgage credit in May. While rates have pushed lower since March, the potential for more rate volatility is deemed sufficient to bias investors towards expecting longer spread duration, slower de-leveraging and lower yield profiles for a bit longer. Nonetheless, 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.

Commercial Mortgage Backed Securities enjoyed a particularly strong start to the year and continues to command our favor. While the rally was partially derailed amidst the rate volatility that gripped fixed income for much of March the sector regained its positive direction in April, and remains cheap and poised to continue its spread recovery into a liquid market. Although the increasingly busy new issuance calendar represents a potential challenge to the favorable technical set-up, at this stage we believe it is net favorable given the positive fundamental implications. Looking ahead, reflationary impulses from monetary and fiscal policy and optimism from the vaccine roll-out remain extremely supportive of CRE fundamentals.

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 US 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.

We maintain our positive assessment for collateralized loan obligations (CLOs). While we continue to expect robust issuance, we noted the MoM decline in all issuance categories and expect lower refi/reset volumes in particular to continue to be realized into the 2H. The set-up for CLOs remains more predicated on steady to improving fundamentals and attractive relative value, particularly given the impressive excess returns amassed in competing risk markets. Additionally, while not a key driver in our positive assessment, we continue to expect the sector to benefit from more resilient sponsorship owing to its floating rate status following the pickup in realized rate vol YTD.

Emerging Market (EM) Debt

The momentum and strength of the U.S. economy coupled with the gradual re-opening in Europe has supported the global recovery. As such, we expect global capital flows to EM to remain positive as global financial conditions remain favorable. In May, the multi- speed and unsynchronized EM growth rebound continued, highlighting the importance of export sector and manufacturing strength, as well as government policy and vaccine rollouts to support the macro path. Headline inflation continues to pick up from multi-year lows, but is expected to moderate in the second half of 2021. EM corporates continued to see earnings improvement, led by commodity producers that benefited from rebounding oil and metal prices. EM bank fundamentals have started recovering, while asset quality trends may still be adversely affected by renewed lockdowns in certain countries.

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