

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

- The U.S. Federal Reserve is expecting three rate cuts this year but has kept short-term interest rates unchanged during the quarter. Fed is reducing its balance sheet through runoff, with 1Q24 runoff equating to roughly \$45 billion in mortgage-backed securities (MBS).
- Interest rates significantly sold off with 10-year rising 32 basis points (bp) and the 2-year and 10-year slightly flattening 5 bp during the quarter. Accordingly, the 30-year fixed mortgage rate increased around 16 bp to 6.74%.
- MBS underperformed Treasury hedges as they have been trading directionally with rates. While declining rate volatility has been beneficial to mortgage performance, sluggish demand technical factors has been a headwind. Lower coupons slightly outperformed the belly and higher coupons according to Bloomberg.
- Housing market activity increased slightly as we move away from winter seasonals. Both new home sales and existing home sales have increased with existing home sales increasing at a greater rate.
- For the quarter, the Voya GNMA Income Fund outperformed its benchmark, the Bloomberg GNMA Index on a net asset value basis (NAV).

Current outlook and strategy

Agency MBS was off to a rocky start as rates sold off and bank demand became less clear into the Basel proposal overhaul. Housing activities started to tick up as we move away from slower winter seasonals, bolstering supply technical factors. Inflation, as measured by Consumer Price Index (CPI), has come in slightly higher than market consensus in both January and February. Fears of a potential recession should benefit MBS demand as a flight-to-safety entices money managers to increase allocations.

From a technical factor perspective, lower coupon remains sensitive to supply and demand factors. For example, option-adjusted spread (OAS) for uniform MBS (UMBS) 2s widened 10 bp on the back of Truist's announcement in February to sell mortgages. Additionally, if the reproposed banking regulations require smaller banks to follow similar regulatory requirements akin to their larger, global systemically important bank (GSIB) counterparts, we could see resurgent bank demand for Ginnie Mae MBS. From a fundamental factors perspective, we observed accelerated prepayment speed for recently produced Veteran Affairs (VA) loans in January and February, which is most likely a function of lenders utilizing VA's streamlined refinancing program to take advantage of the rate rally towards the end of last year.

Housing prices remained stable during the quarter with Case-Shiller 20-City Home Price Index up a seasonally adjusted 0.14% in January. Overall MBS supply appears to be relatively docile for the foreseeable future for both gross and net issuance; however, the GNMA fund managers will continue to monitor the technical factors impacting MBS supply.

The Voya GNMA Income Fund maintains an allocation to conventional MBS due to better fundamental factors. The Fund remains overweight to off-benchmark GNMA and agency-backed collateralized mortgage obligations (CMO) which offer greater longer-term value with higher spreads relative to generic collateral, especially on an OAS basis. Additionally, the Fund maintains a preference for higher coupon collateral such as 4.5s and 5s.

Portfolio review

For the quarter, the Fund outperformed its benchmark. The outperformance was mostly attributable to floater positioning and off-benchmark CMO holdings. Duration overweight subtracted from Fund excess performance.

The **Bloomberg GNMA Index** tracks fixed-rate mortgage-backed pass-through securities guaranteed by the Government National Mortgage Association (GNMA). The Index is constructed by grouping individual MBS pools into aggregates or generics, which proxy for the outstanding pools of a given program, coupon and vintage. The Indexes do not reflect fees, brokerage commissions, taxes or other expenses of investing. **Investors cannot invest directly in an Index.**

Past performance is no guarantee of future returns. All security transactions involve a substantial risk of loss. Please reference your client statement for a complete review of recent transactions and performance.

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's 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.

This commentary has been prepared by Voya Investment Management for informational purposes. Nothing contained herein should be construed as (i) an offer to sell or solicitation of an offer to buy any security or (ii) a recommendation as to the advisability of investing in, purchasing or selling any security. Any opinions expressed herein reflect our judgment and are subject to change. Certain of the statements contained herein are statements of future expectations and other forward-looking statements that are based on management's current views and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. Actual results, performance or events may differ materially from those in such statements due to, without limitation, (1) general economic conditions, (2) performance of financial markets, (3) interest rate levels, (4) increasing levels of loan defaults (5) changes in laws and regulations and (6) changes in the policies of governments and/or regulatory authorities.

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.

©2024 Voya Investments Distributor, LLC • 230 Park Ave, New York, NY 10169 • All rights reserved.

Not FDIC Insured | May Lose Value | No Bank Guarantee
CMFC-GNMAINCOME 033124 • ex033125 • IM3518326 • WLT250007102

voyainvestments.com

