Voya High Yield Bond Fund

Comprehensive Research, Broad Diversification

Strategy overview

Total return approach, investing in below investment grade corporate securities.

Key takeaways

- Risk assets enjoyed a strong first quarter as inflation's downward trend continued and U.S. economic growth beat expectations.
- For the quarter, the Fund underperformed the Index on a net asset value (NAV) basis.
- The macro outlook remains supportive, as solid economic growth should continue to underpin corporate fundamental factors.

Portfolio review

Risk assets enjoyed a strong first quarter as U.S. economic growth beat expectations. The S&P 500 Index reached a new high and advanced by 10.56% on a total return basis during the quarter and the Nasdaq Composite had a price return of 9.11%. Credit spreads across corporate, securitized and emerging markets sectors finished broadly tighter. The Federal Open Market Committee voted to hold interest rates steady for the fifth consecutive time at its March meeting. However, markets converged with the U.S. Federal Reserve's guidance on the timing of the first rate cut as the disinflation dynamic that characterized 2023 lost momentum, suggesting a growing consensus on the future direction of monetary policy and a rejection of a more significant pivot that was priced at the start of the year.

High yield spreads closed out the quarter 24 basis points (bp) tighter to an option-adjusted spread (OAS) of 299 bp. The move in spreads fully absorbed a selloff in rates, as the Bloomberg High Yield 2% Issuer Cap Index (Index) produced a positive total return of 1.47%. Spreads were supported by strong demand for the asset class given attractive yields despite an uptick in new-issue supply from the prior quarter. From a credit quality perspective, lower-rated bonds outpaced higher quality, as BB, B and CCC rated securities returned 1.13%, 1.36% and 2.14%, respectively.

For the quarter, the Fund underperformed the Index on a NAV basis. Contributors were largely event-driven, as bonds of Burger King franchisee Carrol's Restaurant Group and building products distributor SRS Distribution traded higher when those companies agreed to be acquired. Detractors for the quarter included packaging company Ardagh, which posted weak earnings that heightened concerns about a potential debt restructuring, and a handful of names in the Media space (including Gray Television, AMC Networks, DISH Network and Altice US) as the market continues to come to terms with rapidly changing dynamics within the media and entertainment industry.

Current strategy and outlook

The macro outlook remains supportive, as solid economic growth should continue to underpin corporate fundamental factors. While the Fed's hiking cycle is done, the first rate cut remains a source of debate. With inflation surprising to the upside recently, along with continued strength in economic data, the Fed's case to remain patient on rate cuts has been bolstered. However, their data-dependent stance will provide flexibility in adjusting policy measures in response to evolving economic conditions, ensuring a balanced approach to supporting economic growth while addressing inflation concerns. Market technical factors in high yield remain favorable as supply has continued to underwhelm, while demand has been supported by attractive all-in yields and strong equity market performance. However, spreads remain at tight levels, skewing outcomes negatively in the event of any surprises.

In sector positioning, we remain positive on the healthcare space given higher utilization rates and easing labor cost, and the energy sector which continues to benefit from firm commodity prices. However, we are less constructive on global cyclicals as a whole given still muted recovery from China and Europe. Furthermore, we maintain a cautious stance in industries that continue to face secular challenges, such as media and cable. From a ratings perspective, we are slightly overweight to B-rated bonds, while modestly underweight in BB and CCC rated securities. Single-name risk continues to be a key focus of ours, as dispersion remains elevated.

The **Bloomberg Barclays High Yield Bond—2% Issuer Constrained Composite Index** is an unmanaged index that includes all fixed income securities having a maximum quality rating of Ba1, a minimum amount outstanding of $150 million, and at least one year to maturity. **Investors cannot invest directly in an index.**

Principal Risks: All investing involves risks of fluctuating prices and the uncertainties of rates of return and yield. Investments rated below investment-grade (or of similar quality if unrated) are known as **High-Yield Securities** or "junk bonds." High-yield securities are subject to greater levels of credit and liquidity risks. High-yield securities are considered primarily speculative with respect to the issuer's continuing ability to make principal and interest payments. **Call Risk** During periods of falling interest rates, a bond issuer may call or repay its high-yielding bonds before their maturity date. If forced to invest the unanticipated proceeds at lower interest rates, the Fund would experience a decline in income. Prices of bonds and other debt securities can fall if the issuer's actual or perceived **Credit Risk** deteriorates, whether because of broad economic or company-specific reasons. In severe cases, the issuer could be late in paying interest or principal or could fail to pay altogether. **Derivative Instruments** are subject to a number of risks, including the risk of changes in the market price of the underlying securities, credit risk with respect to the counterparty, risk of loss due to changes in interest rates and liquidity risk. The use of certain derivatives may also have a leveraging effect, which may increase the volatility of the Fund and reduce its returns. Other risks of the Fund include but are not limited to: **Liquidity Risk, Credit Derivatives Risk, Securities Lending Risk, Interest Rate Risk and U.S. Government Securities and Obligations 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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Past performance is no guarantee of future results.

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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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