Voya Strategic Income Opportunities Fund

Unconstrained Fixed Income

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Strategy overview

Unconstrained and flexible approach, investing broadly across the global debt markets.

Key takeaways

- Strong economic data continued to come through in the final quarter of 2024, which had the impact of driving spreads tighter while reversing the rate rally experienced in 3Q24.
- The Fund underperformed its benchmark, the ICE BofA USD 3M Deposit Offered Rate Constant Maturity Index (the Index), on net asset value basis.
- Sector allocation along with security selection decisions contributed over the quarter while duration and yield curve decisions detracted over the period, where the rate rally seen in the previous quarter reversed course as inflation concerns and a more cautious U.S. Federal Reserve led to markets repricing yields higher.
- Looking forward, we continue to expect economic growth will remain resilient. The recent election outcome further strengthens this view due to election optimism and productivity gains from deregulation.

Portfolio review

Strong economic data continued to come through in the final quarter of 2024, which had the impact of driving spreads tighter while reversing the rate rally experienced in 3Q24. The gross domestic product (GDP) report for 3Q24 once again came in elevated (initially reporting at 2.8% and later revised to 3.1%) driven largely by strong consumer and government spending, which grew at 3.7% and 5.1%, respectively. Notably, consumer spending accounted for roughly 80% of the overall growth, highlighting its critical role in the economy.

Inflationary pressures remained a key concern. The Consumer Price Index (CPI) surprised to the upside in early October, and while subsequent data showed stability in both CPI and Personal Consumption Expenditures (PCE) inflation, both remained elevated. Core PCE, the Fed’s preferred measure of inflation, finished the quarter at 2.8% year over year, slightly above where it was trending in the summer. Notably, core goods prices, which had experienced a deflationary trend for several months, began to reaccelerate.

An investor should consider the investment objectives, risks, charges and expenses of the Fund(s) carefully before investing. For a free copy of the Fund’s prospectus or summary prospectus, which contains this and other information, visit us at www.voyainvestments.com or call (800) 992-0180. Please read all materials carefully before investing.

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Labor market dynamics continued to show signs of softening without entering a state of deterioration. Job gains remained reasonable, and although the unemployment rate resumed its upward trajectory, it remained below the high watermark set earlier in the year. Meanwhile, wage growth remained strong, which helps explains both the resilience of consumer spending and the stickiness of services inflation.

While the Fed continued to deliver rate cuts at both the November and December meetings, the December cut was accompanied by more "hawkish" elements. Specifically, the Fed's Dot plot indicated only two cuts projected for 2025—down from four in the previous iteration. Additionally, officials moved their projection for both growth and inflation higher, while their projection for the unemployment rate moved lower and only slightly above the current level.

Overall, the fourth quarter of 2024 was characterized by resilient labor market dynamics, strong economic growth and sticky inflation. The impact on fixed income performance was mixed, with yields rising and credit spreads tightening, leading to modestly negative total returns for most fixed income sectors.

Sector allocation along with security selection decisions contributed over the quarter while duration and yield curve decisions detracted over the period, where the rate rally seen in the previous quarter reversed course as inflation concerns and a more cautious Fed led to markets repricing yields higher. Our overweight to securitized credit contributed broadly over the period. The non-agency residential mortgage-backed securities (RMBS) and credit risk transfers (CRT) sector was the largest contributor, where spreads tightened on positive economic fundamental factors and optimism for future policies. Allocation to corporate credit also contributed, albeit to a lesser extent. Additionally, positive security selection results in agency mortgages were realized due to our allocation to off-benchmark collateralized mortgage obligations (CMO) which outperformed despite the underperformance of Index constituents.

Current strategy and outlook

Looking forward, we continue to expect economic growth will remain resilient. The recent election outcome further strengthens this view due to election optimism and productivity gains from deregulation. Meanwhile, we expect inflation to resume its downward trend, driven by moderating service prices. In this area however, the election result lowers our conviction as an adverse policy mix of deficit spending, tariffs and stricter immigration limits would sustain higher levels of demand while constraining supply. That said, we believe a negative market reaction would likely compel the administration to temper those policies before they derail growth.

Assuming this is the case, and inflation does not reaccelerate, we expect the Fed will tolerate inflation that is slightly above their target and deliver a few more rate cuts in an effort to preserve the current cycle.

Overall, this backdrop should be favorable for credit sectors, however we continue to favor high-quality, shorter-dated assets given where valuations are. Over the quarter we reduced our allocation to longer dated investment grade corporates and are now positioned with an underweight from a spread duration perspective. Similarly, we maintain only a modest allocation to high yield corporates, while high quality securitized makes up much of our active risk. If there is a misstep in policy implementation, we believe we are well positioned to capitalize on the short-lived market dislocation and will look to add market risk further out the curve.

Read our Fund Fact Sheet

The **ICE Bank of America U.S. Dollar Three-Month Deposit Offered Rate Constant Maturity** Index is designed to track the performance of a synthetic asset paying ICE Term SOFR to a stated maturity. The index is based on the assumed purchase at par of a synthetic instrument having exactly its stated maturity and with a coupon equal to that day's fixing rate. That issue is assumed to be sold the following business day (priced at a yield equal to the current day rate) and rolled into a new instrument. Effective October 1, 2022 theunderlying reference rate for this index was replaced from USD LIBOR to ICETerm SOFR.Index returns do not reflect fees, brokerage commissions, taxes or other expenses of investing. **Investors cannot invest directly in an index.**

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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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