Fixed Income Perspectives

Elevated volatility is here to stay, and that means many risk assets may become oversold, providing opportunities for investors to profit from mispriced risks.

Bond Market Outlook

Global rates: Interest rate volatility slowed somewhat in July, but we expect it to remain elevated in the near term.

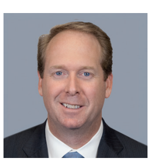
Investment grade corporates: The fundamental backdrop remains resilient, but we continue to expect further downward pressure as growth slows.

High yield corporates: Default expectations remain subdued, although a full-blown recession would certainly trigger at least a mini-wave of defaults.

Senior loans: The U.S. loan market continues to exhibit resilience amid ongoing broad market weakness.

Securitized assets: In the non-agency RMBS space, we have shifted focus in favor of 2.0 forms of mortgage credit.

Emerging markets (EM): The global backdrop remains challenging for EM assets despite a strong rally in spreads.



Matt Toms, CFA
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.

When Volatility Overstays Its Welcome, Opportunity Knocks

Like many other market participants, we're laser focused on inflation in the second half of 2022. While the July inflation reading came in below expectations, our optimism remains tempered. Much of the decline in the headline number was driven by gas prices, and there are still signs of stickiness across many components. With that said, we do believe inflation will decline but remain above the Federal Reserve's comfort zone into 2023, buoyed significantly by housing costs. Despite the stronger-than-expected jobs report in July, we also expect hiring and wage growth to slow.

Ultimately, over time, repaired supply dynamics should allow growth and inflation to return to trend. In the meantime, expect volatility around monthly CPI prints, both to the upside and the downside. Against this backdrop, less-liquid assets will require larger premiums. Volatility will eventually settle at a level higher than what has been the norm since the financial crisis, and central banks will provide less support in an environment of structurally higher inflation. As this plays out, many risk assets may become oversold, providing opportunities for investors to profit from mispriced risks.

Liquidity remains king in this volatile, uncertain environment, and we seek to take advantage of opportunities in assets that become oversold and lock in higher yields across the fixed income spectrum. We have added agency RMBS risk in our portfolios, and we are taking advantage of periods of spread tightening to move up in quality within credit risk allocations.

Sector Outlooks

Global rates and currencies

In the U.S., job growth impacted the bond markets, pushing down prices and elevating yields. Initial jobless claims for the week of July 30 totaled 260K, above the prior week's 254K and a big jump from April's 50-year low of 168K. Meanwhile, the July payrolls report was strong, rising 528K (more than double the consensus) on top of a net revision of 28K for the prior month. The bulk of the gain came in the private sector led by leisure and hospitality, and even construction and manufacturing were solid despite continuing softening across all construction and manufacturing indicators. The resiliency in the labor market should allow the Fed to continue their tightening path.

Following the jobs numbers, the 10-year U.S. Treasury rose from 2.64% to 2.84%, remaining well below its year-to-date high of 3.45%. The 2-year yield rose from 2.90% to 3.24%. The 2-to-10 spread remained negative, widening to –40 basis points.

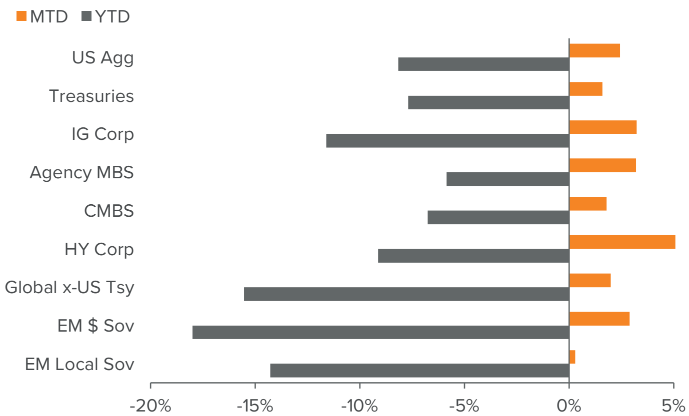
Meanwhile, in Europe, the market is currently pricing in approximately 85 bp worth of additional rate hikes through year-end.

Investment-grade corporates

Declining Treasury yields could ease some pressure on investment grade (IG) corporate outflows but might also move some yield-based buyers to the sidelines in the near term. Rising hedging costs and currency swings are impacting foreign demand, particularly from Japan. The fundamental backdrop remains resilient, but we continue to expect further downward pressure as growth slows. About 35% of IG companies have reported second-quarter results through July, with earnings up +3.8% and revenue up 10.7%. Both are around 0.7% higher than pre-earnings expectations. While profit margins appear resilient so far, most retail earnings have yet to come in. Positive ratings trends

Rates, Spreads and Yields

Fixed income sector total returns as of July 31



		July 31	June 30	1Y low	1Y high
Yields (%)	US 2Y	2.89	2.97	0.17	3.42
	US 10Y	2.65	3.02	1.17	3.48
	GER 10Y	0.82	1.34	-0.50	1.77
	JPN 10Y	0.19	0.23	0.01	0.26
	EM local sov	6.84	7.06	4.91	7.47
Spreads (bp)	IG corp	144	155	82	160
	Agency MBS	27	46	18	54
	CMBS	166	164	94	168
	HY corp	469	569	271	583
	HY ex-energy	478	579	263	594
	EM $ sov	533	542	338	593

As of 07/31/22. Source: Bloomberg, J.P. Morgan and Voya Investment Management. **Past performance is no guarantee of future results.**

continued in July, with T-Mobile getting an upgrade to IG. At the sector level, we continue to like financials, telecommunications, utilities and technology, maintaining a defensive posture given broader macroeconomic uncertainty.

High yield corporates

Second-quarter earnings for high yield issuers also remained resilient. Foreign currency translation is having a greater impact on reported profits; this was a common theme among companies. Default expectations remain subdued, although a full-blown recession would certainly trigger at least a modest wave of defaults. From a positioning standpoint, we are overweight the building products, independent energy, media and entertainment sectors. We are underweight the financial and consumer cyclical sectors. We continue to seek yield with duration roughly below index; given the heightened uncertainty, we are trying to be surgically precise about where we take on duration risk.

Senior loans

The senior loan market experienced a strong rebound in July alongside other risk assets, as the Index returned 2.14% for the month. Secondary trading levels were largely flat for the early part of the period but increased notably in the last two weeks. Overall, the average Index bid price closed out the month at 93.64, representing a 148 bp gain from the prior month. Loans were behind other asset classes (such as high yield bonds and equities) in July, but they remain comfortably ahead on a year-to-date basis.

By ratings, single-Bs led all rating categories with a return of 2.30%, while the BB– component of the Index registered an advance of 2.27%. Although selling pressure eased in CCC–rated credits, the risky cohort failed to deliver a gain during the month (–0.28%). Furthermore, CCCs have been in negative territory every month since January, as appetite for risk remains muted in the uncertain macro environment.

Securitized assets

In the non-agency RMBS space, we have shifted focus in favor of 2.0 forms of mortgage credit, which are instruments that were originated and/or structured in the post-2008-crisis regulatory regime. Top sub-sectors are prime jumbo, CRT and higher-quality forms of non-QM loans. Within the legacy portion of the portfolio, we favor deals branded as being collateralized by prime and Alt-A borrowers, as well as those that are actively receiving principle paydowns.

After CLOs realized their first positive total return month since January, we see room for further outperformance in the near term. CLOs are being supported by lower issuance (down 15% y/y), attractive yields relative to other sectors, and investors' affinity for floating-rate instruments.

In asset-backed securities (ABS), we maintain our positive outlook for the near term. The sector is being supported by elevated yields and improved relative value driving continued sponsorship among investors. Secondary selling is a key risk, particularly with the rate rally since mid-June improving dollar price profiles. Regardless, significantly improved yield and spread profiles are attracting more interest from income-focused buyers. We expect that fundamentals will prove supportive in the medium term as seasonality keeps most payment performance metrics at or inside of pre-Covid levels.

In commercial mortgage-backed securities (CMBS), we maintain a favorable outlook. The space has enjoyed a reprieve from what was a historically elevated level of new-issue supply. July's $3.7 billion issuance (including $0 conduit) represented a year-to-date low and fourth straight month of decline. Elevated issuance had previously fostered correlation to broader risk markets, and we expect tight supply to support the sector in the near term.

Emerging market debt

The global backdrop remains challenging for EM assets, as continued inflation pressures, declining growth expectations, a hawkish Fed and tightening of financial conditions are clear headwinds. China's zero-Covid policy continues to restrain its recovery, while Russia's war in Ukraine is unlikely to find a swift resolution. Commodity prices have moderated in line with global growth concerns but remain historically elevated due to supply constraints caused by the war, low spare capacity, and the ongoing energy transition. While an obvious boost to exporting nations, this will also weigh on domestic consumption, particularly in Europe and Latin America.

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