

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.

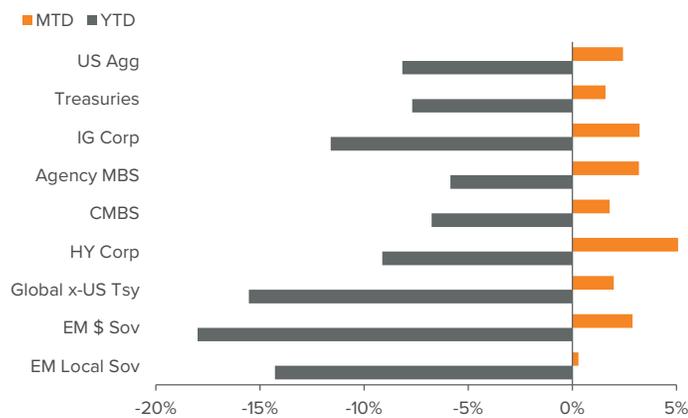
Meanwhile, in Europe, the market is currently pricing in approximately 85 bp worth of additional rate hikes through year-end.

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



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.

| | 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 |

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.

Disclaimer

Past performance does not guarantee future results. 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. Fund holdings are fluid and are subject to daily change based on market conditions and other factors.

The distribution in the United Kingdom of this presentation and any other marketing materials relating to portfolio management services of the investment vehicle is being addressed to, or directed at, only the following persons: (i) persons having professional experience in matters relating to investments, who are "Investment Professionals" as defined in Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Financial Promotion Order"); (ii) persons falling within any of the categories of persons described in Article 49 ("High net worth companies, unincorporated associations etc.") of the Financial Promotion Order; and (iii) any other person to whom it may otherwise lawfully be distributed in accordance with the Financial Promotion Order. The investment opportunities described in this presentation are available only to such persons; persons of any other description in the United Kingdom should not act or rely on the information in this presentation.

The Capital Markets Authority and all other Regulatory Bodies in Kuwait assume no responsibility whatsoever for the contents of this presentation and do not approve the contents thereof or verify their validity or accuracy. The Capital Markets Authority and all other Regulatory Bodies in Kuwait assume no responsibility whatsoever for any damages that may result from relying on the contents of this presentation either wholly or partially. It is recommended to seek the advice of an Investment Advisor.

Voya Investment Management does not carry on a business in a regulated activity in Hong Kong and is not licensed by the Securities and Futures Commission. This insight is issued for informational purposes only. It is not to be construed as an offer or solicitation for the purchase or sale of any financial instruments. It has not been reviewed by the Securities and Futures Commission. Voya Investment Management accepts no liability whatsoever for any direct, indirect or consequential loss arising from or in connection with any use of, or reliance on, this insight, which does not have any regard to the particular needs of any person. Voya Investment Management takes no responsibility whatsoever for any use, reliance or reference by persons other than the intended recipients of this insight. Any prices referred to herein are indicative only and dependent upon market conditions. Unless otherwise specified, investments are not bank deposits or other obligations of a bank, and the repayment of principal is not insured or guaranteed. They are subject to investment risks, including the possibility that the value of any investment—and income derived therefrom, if any—can increase, decrease, or in some cases be entirely lost, and investors may not get back the amount originally invested. The contents of this insight have not been reviewed by any regulatory authority in the countries in which it is distributed.

The opinions and views herein do not take into account your individual circumstances, objectives or needs and are not intended to be recommendations of particular financial instruments or strategies to you. This insight does not identify all the risks (direct or indirect) or other considerations which might be material to you when entering any financial transaction. You are advised to exercise caution in relation to any information in this document. If you are in doubt about any of the contents of this insight, you should seek independent professional advice. In addition, please be advised that Voya Investment Management is a non-Canadian company. We are not registered as a dealer or adviser under Canadian securities legislation. We operate in the Provinces of Nova Scotia, Ontario and Manitoba based on the international adviser registration exemption provided in National Instrument 31-103. Accordingly, investors will have more limited rights and recourse than if the investment manager were registered under applicable Canadian securities laws.

©2022 Voya Investments Distributor, LLC • 230 Park Ave, New York, NY 10169 • All rights reserved.

IM2384505 • CMMC-FIMONTHLY • 073124 • 081822

voyainvestments.com