Voya Credit Income Fund

Access to a Broad Range of Credit Sectors through Closed-End Interval Fund

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Strategy overview

Actively managed strategy that may invest across a broad range of credit sectors, including corporate debt securities, loans, high yield debt securities, and collateralized loan obligations ("CLOs")..

Key takeaways

- Overall, the fourth quarter of 2024 was characterized by resilient labor market dynamics, strong economic growth and sticky inflation.
- Class I shares of the Fund underperformed the benchmark on a net asset value (NAV) basis, the 50% Bloomberg High Yield Bond—2% Issuer Constrained Composite Index/ 50% Morningstar LSTA US Leveraged Loan Index (benchmark).
- Looking ahead, we believe a healthy macro environment supported by a focus on growth and deregulation will be constructive for risk assets. Fundamental factors in leveraged credit remain generally healthy, barring a few pockets of stress in secularly challenged sectors.

Portfolio review

Class I shares of the Fund underperformed the benchmark on a NAV basis in the quarter. The underperformance primarily reflects owning select underperforming credits within wirelines as well as healthcare and pharma, as well as the opportunity cost of some distressed names not owned by the Fund that rallied in the period. In contrast, the Fund benefited from selection in financials, as select wealth management firms and insurance brokers positively impacted performance. The Fund's modest collateralized loan obligation (CLO) holdings were also additive to results, as mezzanine CLO tranches outperformed similarly rated corporates during the period. Asset allocation impact was largely mixed, as the Fund's overweight to high yield (HY) detracted in October but was a contributor in December as the Fund had shifted overweight to loans prior to the start of the month.

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. Third quarter gross domestic product once again came in elevated, driven largely by strong consumer and government spending. Labor market dynamics continued to show signs of rebalancing, while wage growth remained elevated, allowing for the sustained resilience of consumer spending and stickiness of inflation, particularly the services segment. While the U.S. Federal Reserve (Fed) delivered two additional rate cuts in the quarter, 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, while officials moved their projections for both growth and inflation higher. These factors resulted in a sharp move higher in yields across the curve, most of which came in December, with the 10-year U.S. Treasury yield closing 79 basis points (bp) higher to 4.57%.

Spreads continued to tighten across leveraged credit, driven by the positive economic backdrop. Both senior loans and HY delivered positive returns during the quarter, outperforming other spread sectors within fixed income. The Morningstar LSTA US Leveraged Loan Index gained 2.27%, while the Bloomberg U.S. High Yield 2% Issuer Constrained Index returned 0.17%. On a YTD basis, both markets delivered attractive returns due to elevated carry and supportive technical factors, although loans modestly outperformed at 8.95% versus 8.19%. From a ratings perspective, CCC rated loans underperformed within loans, while CCC HY bonds outperformed other bond ratings. For the quarter, BB, B and CCC rated loans returned 2.21%, 2.51% and 0.17%, respectively, while BB, B and CCC rated bonds delivered respective returns of –0.50%, 0.32% and 2.26%. On the issuance side, gross new-issue supply remained active across the leveraged finance space due to ongoing refinancing activity despite still subdued merger and acquisition deal volume. In the loan market, repricing activity continued at a robust clip, with a record-setting $279 billion repriced during the fourth quarter. On the demand side, investor flows into leveraged credit remained active across the measurable investor segments. CLO issuance had another strong quarter, while flows continued to be broadly positive within retail mutual funds and ETFs.

Current strategy and outlook

Looking ahead, we believe a healthy macro environment supported by a focus on growth and deregulation will be constructive for risk assets. Fundamental factors in leveraged credit remain generally healthy, barring a few pockets of stress in secularly challenged sectors. Although downside risk has diminished recently, we remain attuned to potential headwinds that could create volatility and widen spreads in coming quarters. On the macro front, we believe the main "known" risks are inflation stalling above the Fed's target and lower consumer spending stemming from a weakening of the labor market, with a material external shock being a wildcard. Market technical factors should remain supportive in the near term, driven by steady investor inflows and still muted net issuance levels. While valuations aren't particularly cheap, high all-in carry should continue to support returns even if spreads widen modestly.

With fewer Fed cuts expected in 2025 than previously anticipated, we are more constructive on the loan market in the near term and enter the new year with a slight overweight to loans, having reduced our previously modest overweight to HY over the course of the fourth quarter. By rating, we maintain a single-B average credit profile and remain focused on name-specific risk and on income and capital preservation given the challenged upside to downside skew of current prices. In terms of industry positioning, we are more constructive on U.S. cyclicals relative to global cyclicals with the view of the U.S. economy continuing to outperform in 2025. To that end, we've increased exposure to more U.S. centric businesses versus those more dependent on revenues in growth-challenged geographies such as China and Europe. Examples include healthcare providers and U.S. based energy producers, which we favor over global commodity producers and autos.

Holdings detail

Companies mentioned in this report – percentage of Fund investments, as of 12/31/24: N/A.

Read our Fund Fact Sheet

The **Morningstar® LSTA® US Leveraged Loan Index** tracks performance of institutional leveraged loans on a market-weighted basis, and the **Bloomberg 2% High Yield Issuer Constrained Composite Index** measures the performance of high yield corporate bonds, with a maximum allocation of 2% to any one issuer.Index returns do not reflect fees, brokerage commissions, taxes or other expenses of investing. **Investors cannot invest directly in an index.**

All investing involves risks of fluctuating prices and the uncertainties of rates of return and yield inherent in investing. You could lose money on your investment and any of the following risks, among others, could affect investment performance. The following principal risks are presented in alphabetical order which does not imply order of importance or likelihood: Company; Covenant-Lite Loans; Credit; Credit Default Swaps; Credit Facility; Credit (Loans); Currency; Demand for Loans; Derivative Instruments; Duration; Floating Rate Loans; Foreign (Non-U.S.) Investments; Foreign (Non-U.S.) and Non-Canadian Issuers; High-Yield Securities; Interest in Loans; Interest Rate; Interest Rate for Floating Rate Loans; Interest Rate Swaps; Leverage; Limited Liquidity for Investors; Limited Secondary Market for Loans; Liquidity; Market; Market Disruption and Geopolitical; Other Investment Companies; Prepayment and Extension; Securities Lending; Special Situations; Temporary Defensive Positions; Valuation in Loans; When-Issued, Delayed Delivery, and Forward Commitment Transactions. **Limited Liquidity for Investors** the Fund does not repurchase its shares on a daily basis and no market for the Fund's Common Shares is expected to exist. To provide a measure of liquidity, the Fund will normally make monthly repurchase offers for not less than 5% of its outstanding Common Shares. If more than 5% of Common Shares are tendered for repurchase by investors, investors may not be able to completely liquidate their holdings in any one month. Shareholders also will not have liquidity between these monthly repurchase dates. **Investors should consult the Fund's Prospectus and Statement of Additional Information for a more detailed discussion of the Fund's risks.**

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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