

# Access High Quality Mortgage Securities

## Strategy overview

Primarily invests in Government National Mortgage Association (GNMA) securities with maturities in excess of one year and which have the same credit quality as U.S. Treasury securities, but higher yields to compensate for prepayment uncertainty.

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

## Key takeaways

- The U.S. Federal Reserve is expecting one rate cut this year and has kept short-term interest rates unchanged during the quarter. Fed is reducing its balance sheet through runoff, with 2Q24 runoff equating to around \$54 billion in mortgage-backed securities (MBS).
- Interest rates modestly sold off with the 10-year rising 20 basis points (bp) as well as the 2-year and 10-year slightly steepening 6 bp during the quarter. Accordingly, the 30-year fixed mortgage rate increased around 22 bp to 6.96%.
- GNMA MBS underperformed Treasury hedges by 17 bp, mostly driven by their rate directionality and news about possible sales by banks. Lower coupons outperformed the belly and higher coupons according to Bloomberg.
- Housing market activity increased as we went into summer seasonals. Both new home sales and existing home sales have increased, however, overall home sales remain subdued by historical standards.
- For the quarter, the Voya GNMA Income Fund outperformed its benchmark, the Bloomberg GNMA Index on a net asset value (NAV) basis.

## Current outlook and strategy

**Agency MBS did not get any relief in the second quarter as rates sold off and talks of potential sales of MBS by banks overhung the market.** Housing activities started to tick up as we move into summer seasonals, but remain relatively low due to elevated mortgage rates. Inflation, as measured by Consumer Price Index (CPI), has come in slightly below than median market estimate in both April and May. Fears of a potential recession should benefit MBS demand as a flight-to-safety entices money managers to increase allocations.

**From a technical perspective, lower coupons remain sensitive to supply and demand factors.** As the biggest part of the index with no new production, lower coupons tend to outperform when there's passive index flows into Fixed Income and Mortgage Funds. Demand for Ginnie versus Conventionals is also impacted by technical factors. If the repropounded banking regulations require smaller banks to follow similar regulatory requirements akin to their larger, global systemically important bank (GSIB) counterparts, we could see resurgent bank demand for Ginnie Mae MBS in the second half of 2024. From a fundamental perspective, prepayment speeds for recently produced, high coupon, Veteran Affairs (VA) loans remain elevated due to the efficiency of VA's streamlined refinancing program.

Housing prices remained stable during the quarter with Case-Shiller 20-City Home Price Index up a seasonally adjusted 0.38% in April. Overall MBS supply appears to be relatively docile for the foreseeable future for both gross and net issuance; however, the GNMA fund managers will continue to monitor the technical factors impacting MBS supply.

**The GNMA Income Fund maintains an allocation to conventionals where fundamental value is more attractive.**

The Fund remains overweight off-benchmark GNMA and agency-backed collateralized mortgage obligations (CMO) which offer greater longer-term value with higher spreads relative to generic collateral, especially on an option-adjusted basis. Additionally, the Fund maintains a preference for higher coupon collateral such as 4.5s to 5.5s.

**Portfolio review**

**For the quarter, the Voya GNMA Income Fund outperformed its benchmark on NAV basis.** The outperformance was mostly attributable to floater positioning and off-benchmark CMO holdings. Duration overweight subtracted from Fund excess performance.

The **Bloomberg GNMA Index** tracks fixed-rate mortgage-backed pass-through securities guaranteed by the Government National Mortgage Association (GNMA). The Index is constructed by grouping individual MBS pools into aggregates or generics, which proxy for the outstanding pools of a given program, coupon and vintage. The Indexes do not reflect fees, brokerage commissions, taxes or other expenses of investing. **Investors cannot invest directly in an Index.**

**Past performance is no guarantee of future returns.** All security transactions involve a substantial risk of loss. Please reference your client statement for a complete review of recent transactions and performance.

**Principal risks.** All investing involves risks of fluctuating prices and the uncertainties of rates of return and yield. As interest rates rise, bond prices fall, reducing the value of the Fund's share price. To the extent that the Fund invests in asset-backed, mortgage-backed or mortgage-related securities, its exposure to prepayment and extension risks may be greater than investments in other fixed-income securities. While the Fund invests in securities guaranteed by the U.S. government as to timely payments of interest and principal, **the Fund's shares are not insured or guaranteed.** Other risks of the Fund include but are not limited to: credit risks, extension risks, other investment companies' risks, prepayment risks, U.S. government securities and obligations risks and securities lending 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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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. Portfolio holdings are fluid and are subject to daily change based on market conditions and other factors.

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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