Voya GNMA Income Fund

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.

Key takeaways

- The U.S. Federal Reserve is near the end of its interest rate hike cycle, raising short-term interest rates by only 0.25% in the quarter. The Fed is reducing its balance sheet through runoff, with 3Q23 runoff equating to around $55 billion.
- Interest rates significantly sold off with the 2 year/10 year steepening 58 basis points (bp) during the third quarter. Additionally, the 30-year fixed mortgage rate increased approximately 55 bp to 7.36%. At these levels, around 99% of the mortgage-backed securities (MBS) Index has lost its economic incentive to refinance.
- MBS underperformed as they have been trading directionally with rates recently. Rising rate volatility was also a significant contributor to the underperformance. Belly coupons (e.g., 3s to 4s) lagged the wings.
- Underperformance throughout the MBS Index is reflected in the mortgage spreads widening across the Index for both zero-volatility and option adjusted metrics. MBS spreads are now near the widest level in years.
- Housing markets remained resilient through the period with stable prices despite rising mortgage rates. Both new home sales and existing home sales have decreased with existing home sales decreasing at a greater rate.
- 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 struggled to catch a bid in the third quarter as rates sold off and rate volatility jumped towards the end of September. Going forward, Federal Deposit Insurance Corporation (FDIC) auctions are in the rearview mirror as they have concluded their mortgage pool sales and only have a small amount of collateralized mortgage obligations (CMO) remaining (around $2.8 billion). This, along with a slowing housing market, would provide a tailwind on the supply side to the agency MBS market. Inflation has rebounded by some extent over the quarter with headline Consumer Price Index (CPI) increasing modestly. Additionally, a strong labor market and consistently higher-than-expected monthly job gains suggests the Fed may have to maintain a restrictive stance for longer than many anticipate. The expected lower MBS supply and fears of a potential recession should benefit MBS demand as a flight-to-safety entices money managers to increase allocations. Additionally, if new 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.

Housing prices remained stable during the summer with Case-Shiller 20-City Home Price Index up a seasonally adjusted 0.87% in July. This is partly due to limited housing inventory caused in part by the strong lock-in effect. Overall MBS supply is expected to be relatively light for the foreseeable future; however, we will continue to monitor the technical factors impacting MBS supply.

The Voya GNMA Income Fund maintains an allocation to conventionals (Federal National Mortgage Association and Federal Home Loan Mortgage Corp.) citing attractive relative value, as well as CMOs 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 versus the deep discounts where nominal spreads remain tight.

Portfolio review

For the quarter, the Fund outperformed its benchmark. Outperformance was mostly attributable to a shorter duration as well as off-benchmark CMOs including floaters. Meanwhile, our overweight to the belly coupons detracted slightly.

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 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.