Commentary | 4Q24

Voya Securitized Credit Fund

Tap into Voya's Flexible "Through-the-Cycle" Approach

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Strategy overview

Invests in fixed income sectors collateralized by distinct asset types: commercial real estate (CMBS), residential housing (RMBS), nonmortgage assets (ABS) and collateralized loan obligations (CLOs).

Key takeaways

- Strong economic data continued to come through in the final quarter of 2024, which had the impact of driving spreads tighter while reversing the rate rally experienced in 3Q24.
- For the quarter, the Voya Securitized Credit Fund outperformed it's benchmark, the Bloomberg US Securitized Index (the Index) on a net asset value (NAV) basis. Sector allocation, security selection, duration and yield curve positions all contributed.
- Overall, the macro backdrop should be favorable for credit broadly, however we continue to favor sectors backed by consumer credit and commercial real estate.

Portfolio review

Strong economic data continued to come through in the final quarter of 2024, which had the impact of driving spreads tighter while reversing the rate rally experienced in 3Q24.

The gross domestic product (GDP) report for 3Q24 once again came in elevated (initially reporting at 2.8% and later revised to 3.1%) driven largely by strong consumer and government spending, which grew at 3.7% and 5.1%, respectively. Notably, consumer spending accounted for roughly 80% of the overall growth, highlighting its critical role in the economy.

Inflationary pressures remained a key concern. The Consumer Price Index (CPI) surprised to the upside in early October, and while subsequent data showed stability in both CPI and Personal Consumption Expenditures (PCE) inflation, both remained elevated. Core PCE, the U.S. Federal Reserve's preferred measure of inflation, finished the quarter at 2.8% year-over-year, slightly above where it was trending in the summer. Notably, core goods prices, which had experienced a deflationary trend for several months, began to reaccelerate.

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Labor market dynamics continued to show signs of softening without entering a state of deterioration. Job gains remained reasonable, and although the unemployment rate resumed its upward trajectory, it remained below the high watermark set earlier in the year. Meanwhile, wage growth remained strong, which helps explains both the resilience of consumer spending and the stickiness of services inflation.

While the Fed continued to deliver rate cuts at both the November and December meetings, 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. Additionally, officials moved their projection for both growth and inflation higher, while their projection for the unemployment rate moved lower and only slightly above the current level.

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.

For the quarter, the Voya Securitized Credit Fund outperformed the Index on a NAV basis. Sector allocation, security selection, duration and yield curve positions all contributed. Our structural bias away from agency mortgage-backed securities (MBS) in favor of credit sectors broadly contributed. Our allocation to non-agency residential mortgage-backed securities (RMBS) and credit risk transfer (CRT) was the largest individual contributor as strong borrower characteristics continued to drive spreads tighter. Our overweight to commercial mortgage-backed securities (CMBS) was also a strong contributor, as fundamental factors improved, and the sector continued to benefit from an active primary market. Similarly, positive security selection results in CMBS were realized due to our bias towards higher yielding tranches. Meanwhile, asset-backed securities (ABS) spreads continued to tighten in sympathy with other high quality spread sectors, and as a result, our overweight contributed. Finally, due to our shorter duration profile relative to the Index, the move higher in rates had a positive impact on relative performance.

Current strategy and outlook

Looking forward, we continue to expect economic growth will remain resilient. The recent election outcome further strengthens this view due to election optimism and productivity gains from deregulation. Meanwhile, we expect inflation to resume its downward trend, driven by moderating service prices. In this area however, the election result lowers our conviction as an adverse policy mix of deficit spending, tariffs and stricter immigration limits would sustain higher levels of demand while constraining supply. That said, we believe a negative market reaction would likely compel the administration to temper those policies before they derail growth.

Assuming this is the case, and inflation does not reaccelerate, we expect the Fed will tolerate inflation that is slightly above their target and deliver a few more rate cuts in an effort to preserve the current cycle.

Overall, this backdrop should be favorable for credit broadly, however we continue to favor sectors backed by consumer credit and commercial real estate, which are earlier in their cycles relative to corporate credit. As of quarter end, non-agency RMBS and CRT represented our top allocation, followed closely by CMBS. Meanwhile, our allocation to collateralized loan obligations (CLOs) remains relatively low and more concentrated in higher quality (more than A rated) tranches. If there is a misstep in policy implementation, we believe we are well positioned to capitalize on the short-lived market dislocation and will look to add market risk further out the curve. Finally, in response to the move higher in rates, we increased the fund's duration in order to reduce some of our underweight relative to the benchmark.

Read our Fund Fact Sheet

The **Bloomberg U.S. Securitized Index** includes the MBS, ABS, and CMBS sectors of the Bloomberg Aggregate universe. Securities prices used to value the benchmark index for the purposes of calculating total return may or may not differ significantly from those used to value securities held within composite portfolios.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: Credit; Credit Default Swaps; Currency; Derivative Instruments; Environmental, Social, and Governance (Fixed Income); Foreign (Non-U.S.) Investments/ Developing and Emerging Markets; High-Yield Securities; Interest in Loans; Interest Rate; Liquidity; Market Disruption and Geopolitical; Mortgage- and/or Asset-Backed Securities; Other Investment Companies; Prepayment and Extension; Securities Lending; Sovereign Debt; U.S. Government Securities and Obligations; When-Issued, Delayed Delivery and Forward Commitment Transactions. **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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