Voya Short Duration High Income Fund

Focus on Short-Duration, U.S. Non-Investment Grade Credit

Strategy overview

Capital preservation emphasis, investing in high-yield corporate debt while seeking to minimize credit, liquidity, and interest rate risks.

Key takeaways

- The high yield (HY) market remains well positioned to withstand an increasingly dynamic macro environment, with particular attractiveness exhibited by shorter-duration issues due to their inherently lower interest rate risk.
- For the quarter, the Fund underperformed the benchmark on a net asset value (NAV) basis.
- Looking ahead, asset class default expectations are projected to remain low due to several supporting factors including minimal refinancing risk in 2025.

Portfolio review

The HY bond market finished higher in the quarter. Concerns around the pace and magnitude of tariff and government reform measures pressured markets due to their potential impact on consumer and corporate spending, economic growth, earnings, employment and inflation. Economic reports released during the period were balanced with durable goods and factory orders, industrial production and the Institute for Supply Management (ISM) Services survey all topping expectations. Conversely, consumer confidence declined, Atlanta Fed GDPNow estimates were revised lower due to imports, and the ISM Manufacturing survey missed projections. Inflation, housing and labor gauges were mixed. The U.S. Federal Reserve kept interest rates steady, slowed its balance sheet drawdown, and updated its economic projections to show a decrease in 2025 gross domestic product (GDP) growth estimates and an increase in 2025 inflation estimates. Against this backdrop, the 10-year U.S. Treasury yield fell sharply in the quarter.

The ICE BofA US High Yield Index returned 0.94% for the period. BB rated bonds returned 1.45%, outperforming B and CCC rated bonds, which returned 0.70% and –0.67%, respectively. Spreads widened to 355 basis points (bp) from 292 bp, the average bond price fell to 94.97, and the market's yield rose to 7.88%. Industry performance was mostly higher for the period. Food producers, cable and capital goods outperformed whereas packaging and paper, autos and transportation underperformed. Trailing 12-month default rates finished the period at 1.20% (par) and 0.68% (issues). The upgrade to downgrade ratio increased to 1.1. New issuance saw 90 issues priced, raising $68.3 billion in proceeds. Mutual fund flows were estimated at $7.6 billion.

For the quarter, the Fund underperformed the benchmark on a NAV basis. Industries contributing the most to performance were healthcare, basic industry and real estate, and capital goods. There were no individual issues that had an outsized positive impact on performance. Energy, utilities and retail were the industries detracting the most from performance in the period. An issue in the energy space specializing in liquefied natural gas infrastructure, that was a meaningful contributor in 2024, received a credit downgrade prior to announcing an asset sale later in the quarter with use of proceeds expected to later pay down debt. Within utilities, a residential solar provider reported quarterly results that missed expectations, subject to a credit downgrade and bonds trading down to distressed levels. Underperformance in retail was primarily driven by a luxury department store operator despite the issuer having strong liquidity, as retail overall has underperformed on reduced consumer confidence and escalating tariff concerns.

Current strategy and outlook

Tariff, government reform and immigration measures are becoming a bigger headwind than previously thought. However, tailwinds such as deregulation and taxation measures still exist. As trade and budgetary clarity improves, uncertainty should lessen, and spending, investment, hiring, merger and acquisition, etc. can resume. Productivity gains, industrialization, onshoring and private sector demand are additional potential growth drivers.

The U.S. HY market, yielding nearly 8%[1], could deliver a coupon-like return in 2025. As a result, the asset class continues to offer equity-like returns but with less volatility. The market's attractive total return potential is a function of its discount to face value and higher coupon, which also serves to cushion downside volatility. Credit fundamental factors are stable, near-term refinancing obligations remain low, and management teams continue to exercise balance sheet discipline. In this environment, new issuance is expected to remain steady, and the default rate should stay below the historical average of 3–4%.

Longer-duration issues are the most likely to be impacted by high and volatile rates, but the overall HY market should have a dampened response due to its larger coupon relative to other fixed income alternatives. As a result, U.S. HY bonds contribute from both a diversification and a relative-performance perspective, offering a very compelling yield opportunity.

The Short Duration High Income strategy remains an attractive fixed income solution without taking excess credit risk, the shorter maturity puts securities first in line to repayment at par, and the strategy lessens price volatility that may be highly amplified in passively managed strategies.

[1] Source: ICE Data Services; data as of March 2025.

The **ICE BofA 1-3 Year US Treasury Index** is an unmanaged index that tracks the performance of the direct sovereign debt of the U.S. Government having a maturity of at least one year and less than three years. **Investors cannot directly invest in an Index.**

Past performance is no guarantee of future returns. All investing involves risks of fluctuating prices and the uncertainties of rates of return and yield inherent in investing. All security transactions involve substantial risk of loss. Please reference your client statement for a complete review of recent transactions and performance.

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