Voya Strategic Income Opportunities Fund

Unconstrained Fixed Income

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Strategy overview

Unconstrained and flexible approach, investing broadly across the global debt markets.

Key takeaways

- The first quarter of 2025 was marked by volatility in the fixed income markets.
- The Fund outperformed its benchmark, the ICE BofA USD 3M Deposit Offered Rate Constant Maturity Index (the Index), on a net asset value (NAV) basis.
- Security selection decisions along with duration yield curve positioning contributed over the quarter while asset allocation decisions detracted.
- Looking ahead, fundamental factors remain supportive.

Portfolio review

The first quarter of 2025 was marked by volatility in the fixed income markets, primarily driven by tariff policies and associated economic uncertainty. Despite robust job gains and a low unemployment rate, fixed income spreads widened, leading to broadly negative excess returns.

The labor market remained strong, with job gains averaging around 200,000 per month and an unemployment rate only slightly above 4%. However, tariff policies were the primary driver of market moves. President Trump announced tariffs on Mexico, Canada and China at his inauguration, with tariffs on China going into effect on February 1st. Tariffs on Mexico and Canada were delayed until March 4th, and additional tariffs on China were imposed on the same day. The uncertainty surrounding these tariffs, along with the potential for an escalating trade war, negatively impacted risk assets, with credit spreads finishing the quarter wider, despite solid labor market dynamics. Similarly, rates fell during the quarter in response to lower growth expectations, which helped deliver positive total returns for most sectors.

The U.S. Federal Reserve maintained a cautious stance in the first quarter of 2025, resisting further interest rate cuts after having cut rates by 100 basis points in 2024. The Fed cited stronger than expected economic data, including robust job gains and a low unemployment rate, as reasons for not cutting rates further. However, in response to tariffs, the updated Summary of Economic Projections (SEP) released following the March meeting showed the median projection for growth moving lower. Meanwhile, the median projection for inflation moved higher, however there was no change to rate expectations, with the median projection still indicating one to two cuts through year end, and another two cuts in 2026.

In markets, spreads began to widen in mid-February when tariff threats intensified. Investment grade (IG) corporates and asset-backed securities (ABS) delivered negative excess returns, as did high-yield (HY) corporates, although the higher carry profile of HY helped the sector modestly outperform its IG counterpart. Agency mortgage-backed securities (MBS) experienced a roller-coaster ride but ultimately finished the quarter flat. Premium-priced pools (coupons of 6% or higher) outperformed, while lower coupons, particularly 2.50%, performed negatively. The commercial mortgage-backed securities (CMBS) sector was flat at the benchmark level, but similar to HY, higher carry allowed non-agency to outperformed agency, and below IG outperformed IG. Non-agency residential mortgage-backed securities (RMBS) was a notable exception, with the sector outperforming, led by Prime Jumbo.

Security selection decisions along with duration yield curve positioning contributed over the quarter while asset allocation decisions detracted. The uncertainty around the new administration's policies and its implications led to negative sentiment being baked into consumer and business surveys, and along with some weaker consumer spending data, led to treasury yields moving lower. Due to our relatively long duration, it contributed to performance. Our overweight to securitized credit sectors broadly detracted over the period, with non-agency residential mortgage-backed securities (RMBS) being the exception. Allocation to corporate credit also detracted, with high yield corporates being the largest underperformer. Meanwhile, security selection decision contributed positively. Our bias towards short-dated IG bonds contributed as they were less impacted by spread widenings. Selection contributions were also sourced from CMBS and ABS.

Current strategy and outlook

Looking ahead, fundamental factors remain supportive. Growth has been roughly 2–3% for the last 3 years, most recently delivering 2.50% in 4Q24. The labor market is healthy with only 4.10% UE. And on the consumer side, balance sheets remain healthy.

That said, survey data has indicated tariffs have negatively impacted both business and consumer sentiment. We have already seen consumers pull back (negative growth numbers in both Personal Consumption Expenditure (PCE) and Retail sales numbers for January) and we will likely see a similar reaction on the business investment side. Even if tariffs are watered down, the associated uncertainty will remain a headwind.

That said, while a recession is not our base case, the probability has clearly increased. While there will likely be an impact on personal consumption and investment, household and corporate balance sheets still remain healthy. In addition, the downside to growth should be limited as the Fed has the room to cut rates, especially if employment numbers weaken. However, much depends on how much, and for how long, the announced tariffs remain in place.

Over the past several quarters, we have been constructive on fundamental factors, but believed valuations were ignoring potential risks. As a result, we came into the quarter positioned with a higher quality, shorter spread duration bias. While spreads have widened, the macro-outlook has clearly weakened. As a result, the overall risk profile of the portfolio has changed only marginally, while quarter over quarter portfolio changes are more reflective of relative value opportunities. For example, we further reduced our overweight to IG corporates, while also increasing our allocation to floating rate Agency collateralized mortgage obligations (CMOs). Looking forward, as spreads continue to widen, we are well positioned to add risk where appropriate.

Read our Fund Fact Sheet

The **ICE Bank of America U.S. Dollar Three-Month Deposit Offered Rate Constant Maturity** Index is designed to track the performance of a synthetic asset paying ICE Term SOFR to a stated maturity. The index is based on the assumed purchase at par of a synthetic instrument having exactly its stated maturity and with a coupon equal to that day's fixing rate. That issue is assumed to be sold the following business day (priced at a yield equal to the current day rate) and rolled into a new instrument. Effective October 1, 2022 theunderlying reference rate for this index was replaced from USD LIBOR to ICETerm SOFR.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: Bank Instruments; Company; Convertible Securities; Credit; Credit Default Swaps; Currency; Deflation; Derivative Instruments; Environmental, Social, and Governance (Fixed Income); Floating Rate Loans; Foreign (Non-U.S.) Investments/ Developing and Emerging Markets; High-Yield Securities; Inflation-Indexed Bonds; Interest in Loans; Interest Rate; Liquidity; Market; Market Capitalization; Market Disruption and Geopolitical; Mortgage- and/or Asset-Backed Securities; Other Investment Companies; Portfolio Turnover; Preferred Stocks; Prepayment and Extension; Securities Lending; Sovereign Debt; U.S. Government Securities and Obligations. **Investors should consult the Fund's Prospectus and Statement of Additional Information for a more detailed discussion of the Fund's risks.**

The strategy employs a quantitative investment process. The process is based on a collection of proprietary computer programs, or models, that calculate expected return rankings based on variables such as earnings growth prospects, valuation, and relative strength.

Data imprecision, software or other technology malfunctions, programming inaccuracies and similar circumstances may impair the performance of these systems, which may negatively affect performance. Furthermore, there can be no assurance that the quantitative models used in managing the strategy will perform as anticipated or enable the strategy to achieve its objective.

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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