VOYA INVESTMENT MANAGEMENT

GENERAL MARKET ENVIRONMENT

The equity, convertible, and high yield (HY) markets advanced in the first quarter as investors digested above-consensus earnings, mixed economic data, and shifting market expectations around Federal Reserve (Fed) easing in the U.S. Fourth quarter earnings results were better than expected, with most companies beating both top- and bottom-line forecasts. Quarterly revenue and earnings growth finished up 4.1% and 4.2%, respectively, and helped lift full-year 2024 and 2025 estimates for growth.

Looking at economic data, gross domestic product (GDP) growth surpassed forecasts, the services sector held up in expansionary territory, and the labor market remained strong. However, the manufacturing sector continued to contract, and some inflation measures were higher than anticipated. Against this backdrop, the U.S. dollar strengthened, the Treasury market sold off, and the market's expectation for the first interest rate cut was pushed to June, aligning with the Fed's most recent full-year forecast.

Equities Market Environment:

> The S&P 500® Index returned 10.56% for the first quarter, marking consecutive quarters of double-digit gains.

> Communication services, energy, and information technology were the best-performing sectors in the period. Real estate was the only sector that closed lower, while utilities and consumer discretionary also underperformed.

> Equity volatility increased modestly, finishing at 13.01 from 12.45 to start the quarter.

Convertible Securities Market Environment:

> The ICE BofA All U.S. Convertible Index returned 2.34% for the period.

> Convertible securities were positively impacted by rising stock prices and credit spread tightening.

> Sector performance skewed positive in the quarter. Telecommunications, energy, and consumer staples were the best performers, while materials, consumer discretionary, and utilities underperformed.

> Below-investment grade (IG) issues outperformed IG issues. Equity-sensitive issues outperformed yield alternative (busted) and total return (balanced) issues.

> U.S. new issuance increased quarter-over-quarter with 34 new deals pricing $20.8 billion in proceeds—the largest quarterly volume in three years.

HY Bond Market Environment:

> The ICE BofA U.S. High Yield Index returned 1.51% for the period.

> CCC rated bonds returned 3.22%, outperforming B and BB rated bonds, which returned 1.48% and 1.10%, respectively.

> Spreads tightened to 315 basis points (bps) from 339 bps, the average bond price rose to 93.18, and the market's yield rose to 7.90%.

> Nearly all industries closed higher for the period. Retail, auto, and healthcare sectors outperformed, whereas cable, media, and packaging/paper underperformed.

> Trailing 12-month default rates remained low at 2.59% (par) and 2.46% (issues).

> New issuance rose quarter-over-quarter with 119 issues priced, raising $87.6 billion in proceeds. Refinancing was the primary use of proceeds at nearly 83% of total volume.

Outlook

2023's economic momentum carried over into 2024. Economic tailwinds include low unemployment, steady consumption, government spending, waning inflation, a stabilizing manufacturing sector, an end to the rate-hike cycle, and accelerating earnings. Economic headwinds include continued restrictive monetary policy and quantitative tightening, a reduction in savings, and United States and international political risks, among others.

U.S. equity valuations reside near long-term averages. Visibility around 2024 and 2025 earnings, U.S. dollar and Treasury market stabilization, and an end to the rate-hike cycle could be positive developments for stocks. Any equity market volatility is expected to present opportunities for active managers to take advantage of better prices for attractive investments.

In our opinion, U.S. convertible securities should continue to provide benefits to investors, as they include attractive asymmetric return profiles and potentially lower volatility relative to the equity market. The shift in the universe's composition exiting 2022 remains largely unchanged heading deeper into 2024. Many securities offer attractive current yields and exhibit defensive characteristics, given lower deltas and closer proximities to bond floors. This dynamic may allow for greater downside risk mitigation if equity volatility rises. If the prices of underlying stocks advance, convertible securities could be positioned to participate in the upside. Lastly, higher debt financing costs are likely to draw issuers to the convertible market for coupon savings. As a result, new issuance is expected to increase materially year-over-year.

The U.S. HY market, yielding nearly 8%, offers the potential for equity-like returns with less volatility. Credit fundamental factors are stable, near-term refinancing obligations remain low, and management teams continue to prioritize debt reduction. Given these factors, defaults should remain well below historical cycle peaks. The market's attractive total return potential is a function of its discount to face value and higher coupons, which also serve to cushion downside volatility. Notably, after recording an annual decline, the HY market has historically delivered two consecutive years of positive returns in six of the seven cases,[1] and forward 12- and 24-month return projections based on the current market yield have been consistent with mid to high single digits.[2]

A covered call options strategy can be utilized to generate premium income. In periods of elevated or rising equity volatility, premiums collected may translate into more attractive annualized yields.

Collectively, these three asset classes can provide a steady source of income and a compelling "participate and mitigate" return profile.

[1]Source: ICE Data Services; data as of December 2022.
[2]Source: JP Morgan; data as of October 2022.

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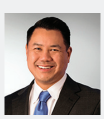
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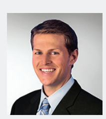
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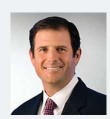
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