

# Fixed Income Review & Outlook

Presented by:

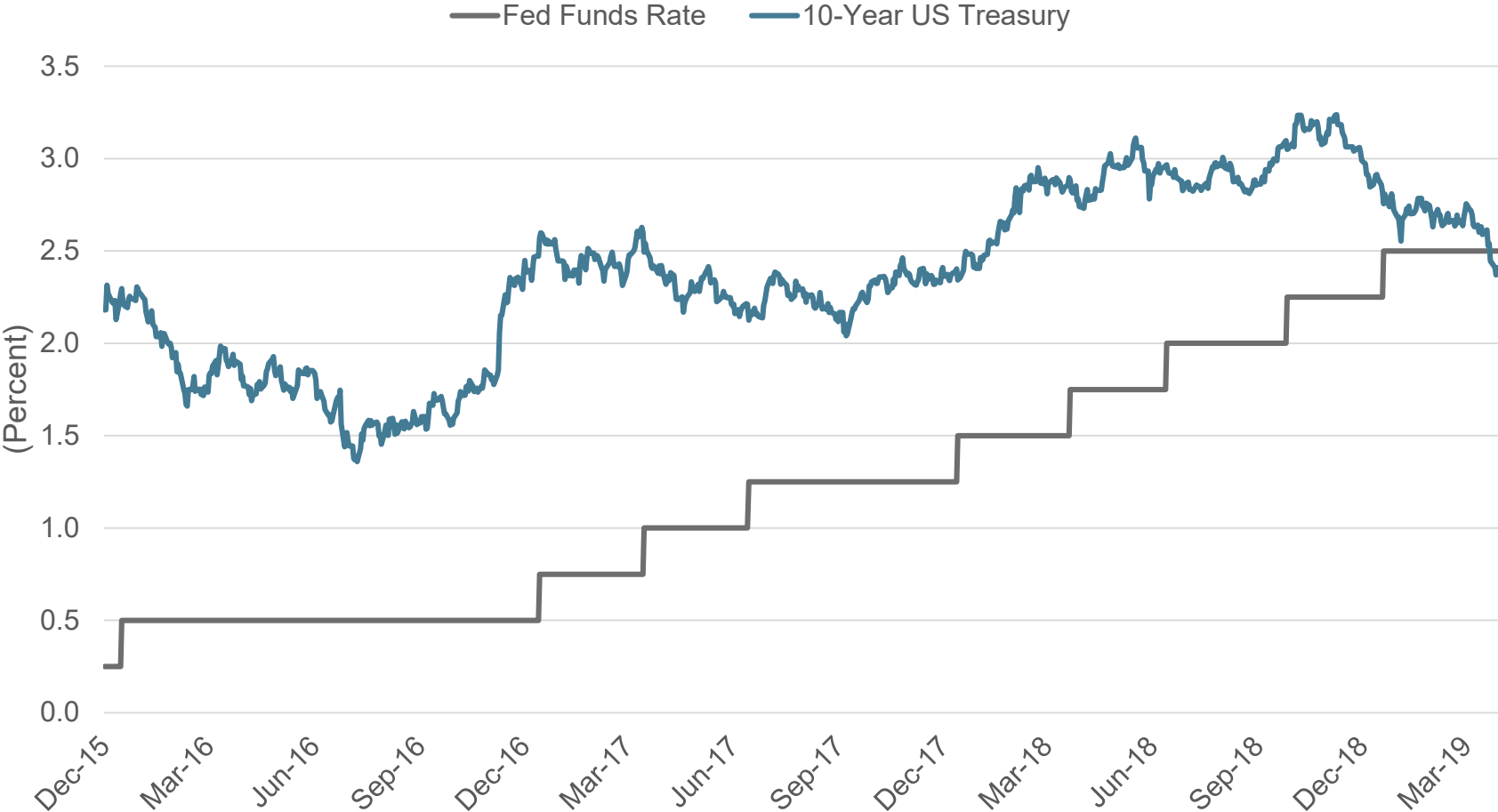
**Brett Cornwell, CFA**, Client Portfolio Manager – Fixed Income

April 18, 2019

CID-797420

For financial professional or qualified institutional investor use only. Not for inspection by, distribution or quotation to, the general public.

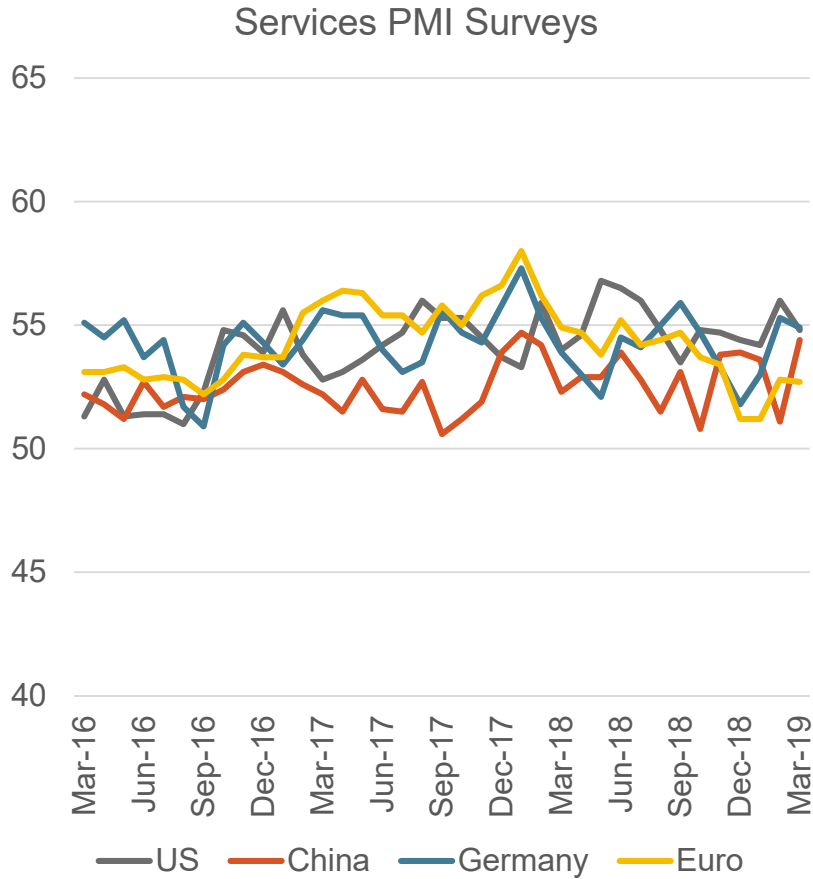
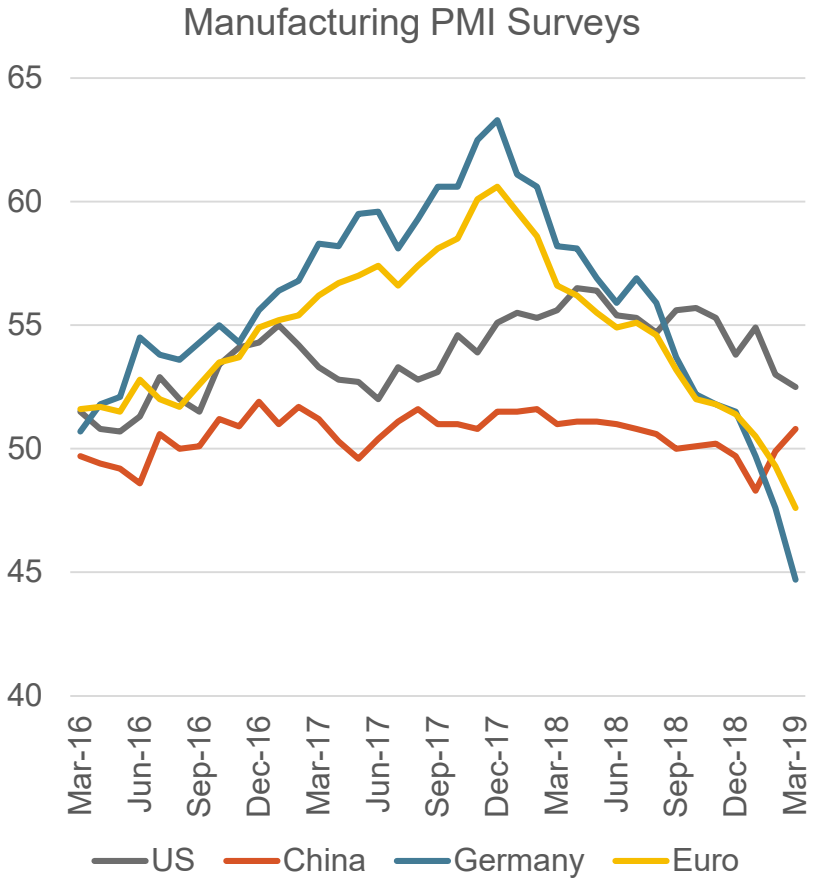
# The Current Fed Cycle: A Look Back



Source: Bloomberg  
As of March 31, 2019



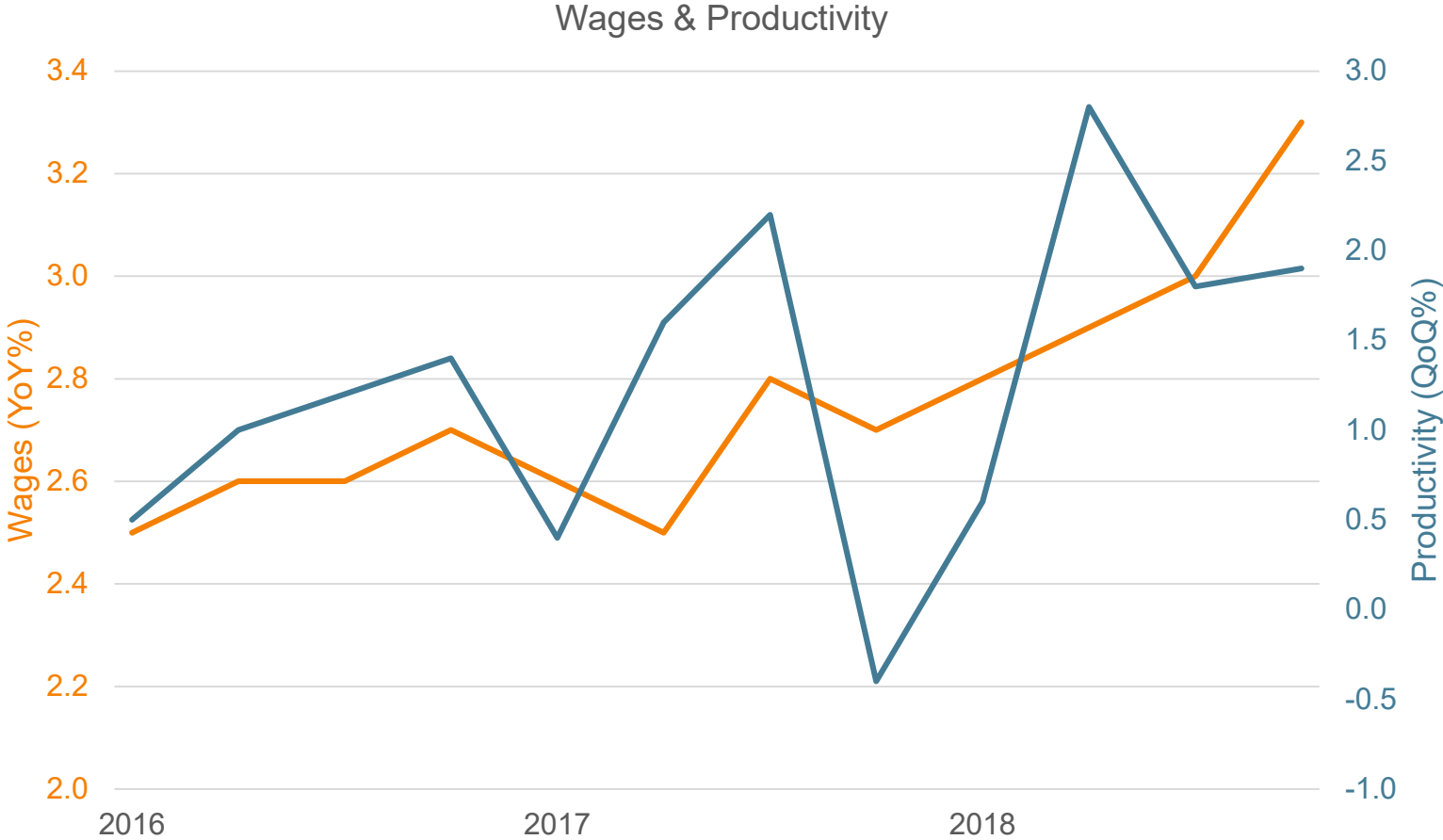
# Recession Watch: Global Concerns Are Elevated



Source: Markit  
 Markit Manufacturing and Services PMI Surveys. All data through March 2019



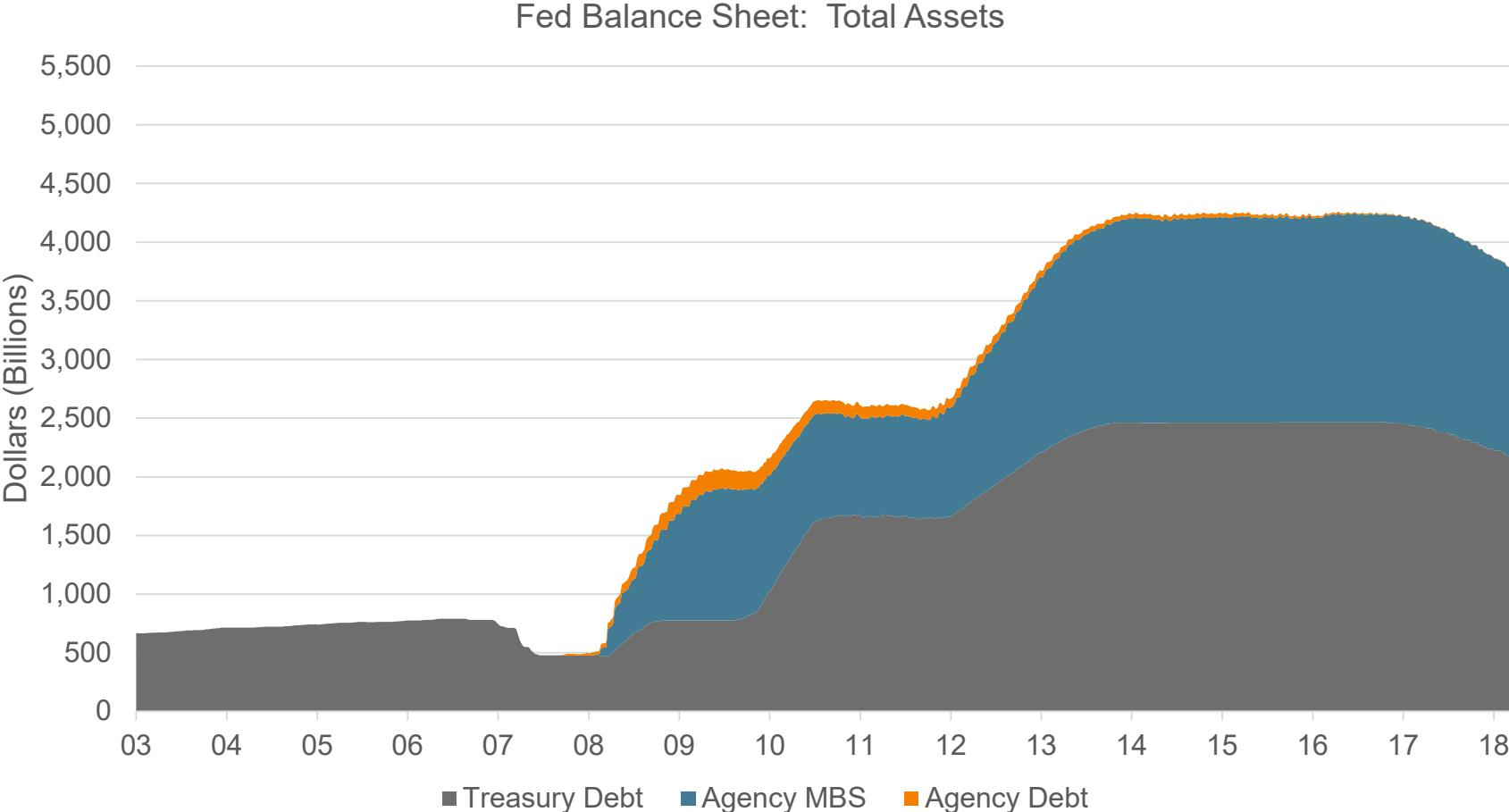
# Inflation is Dead, Keep an Eye On Inflationary Impulses



Source: Bureau of Labor Statistics and Voya Investment Management  
 Wages as defined by US Average Hourly Earnings All Employees Total Private Yearly Percent Change SA, Productivity as defined by US Labor Productivity Output Per Hour Nonfarm Business Sector SA,  
 Oil defined by WTI Brent spot.  
 As of March 31, 2019



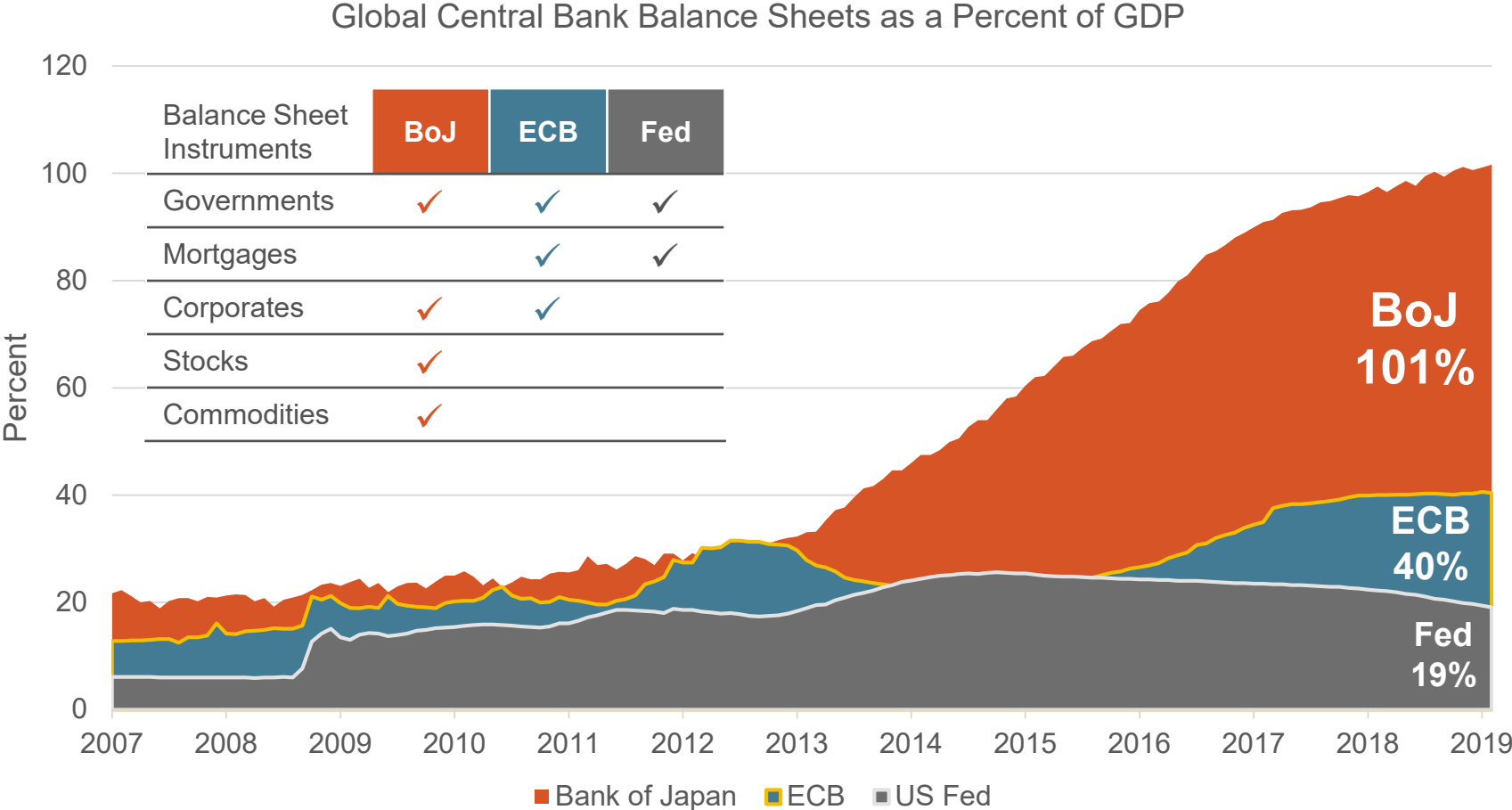
# While the Market is Focused on the End of Balance Sheet Normalization,



Source: Federal Reserve Bank of New York and Voya Investment Management  
Data as of March 13, 2019



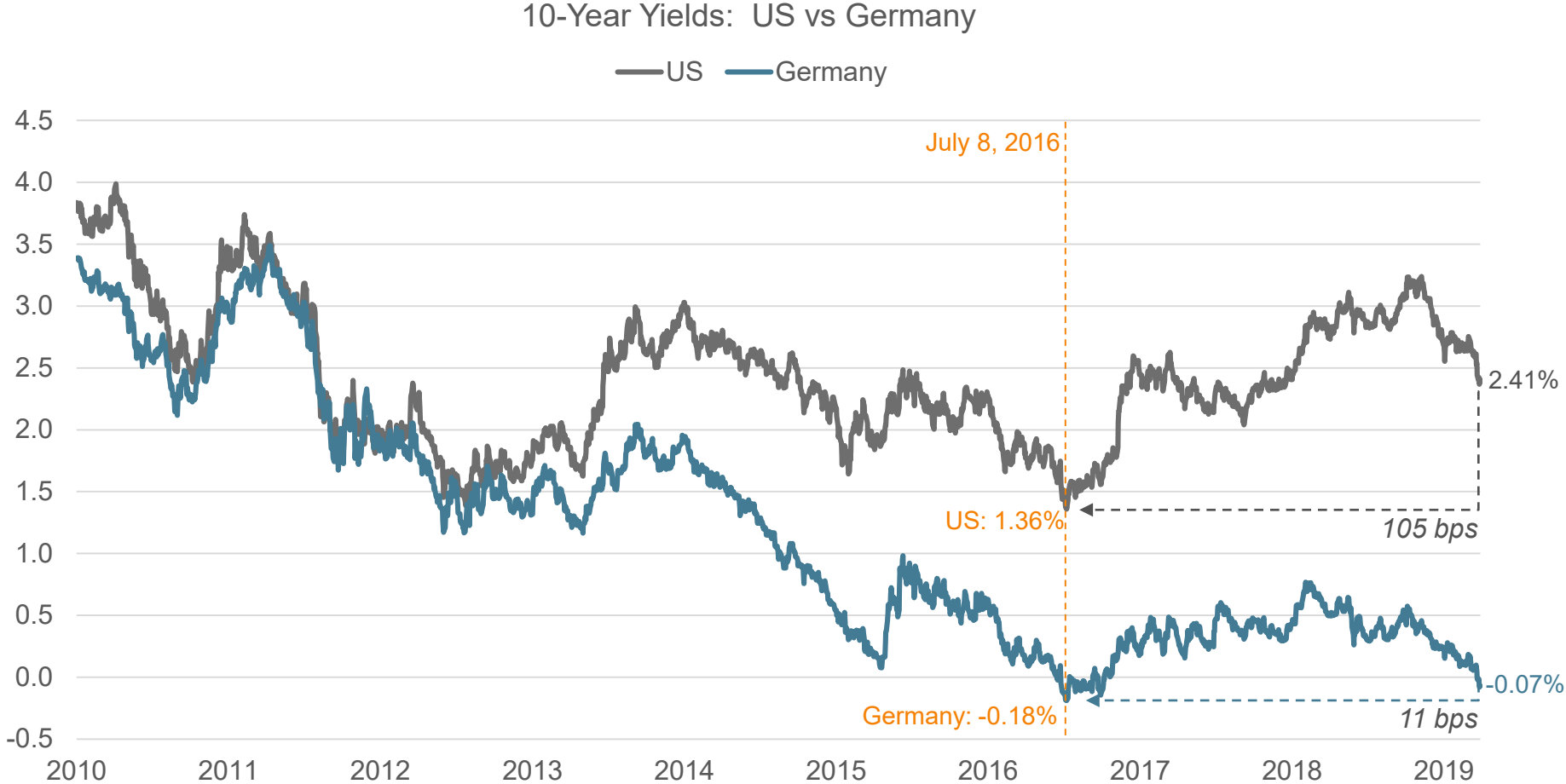
# Understanding the Scope of Central Bank Balance Sheets: Size and Composition Dimension the Challenges Ahead



Source: Bloomberg, Bank of Japan, European Central Bank, US Federal Reserve and Voya Investment Management  
 As of February 28, 2019



# US Treasury Has More “Risk-Free” Cushion



Source: Bloomberg  
Data as of March 31, 2019



# Credit is Still Flowing

## Option Adjusted Credit Spreads

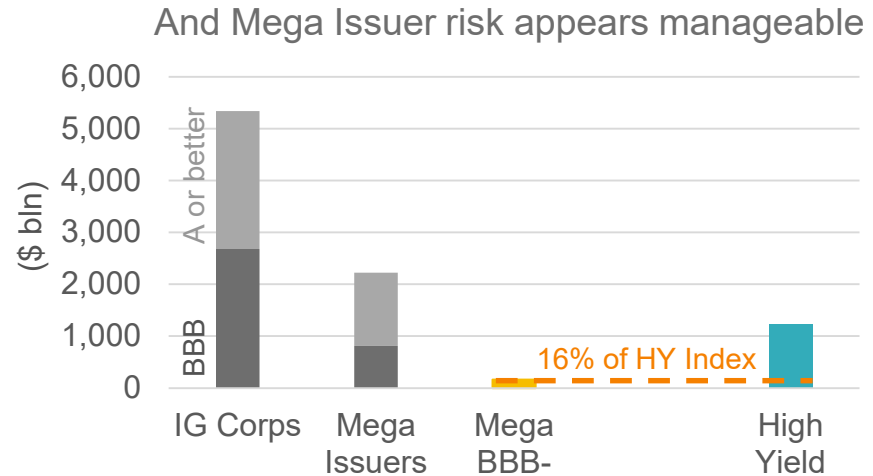
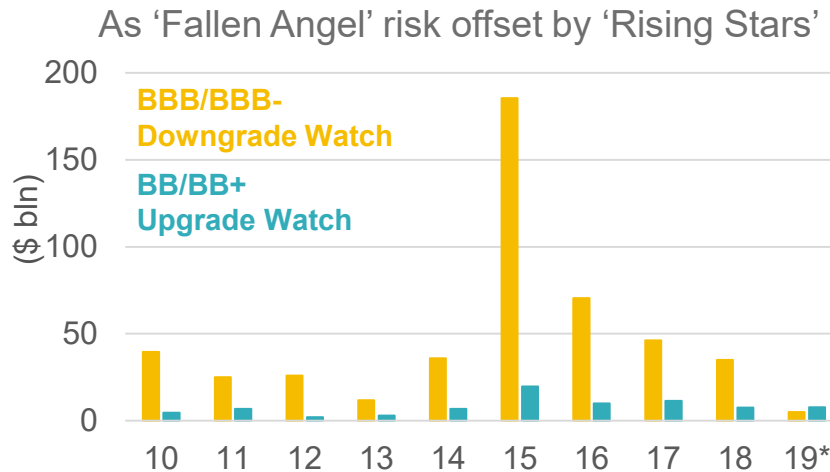
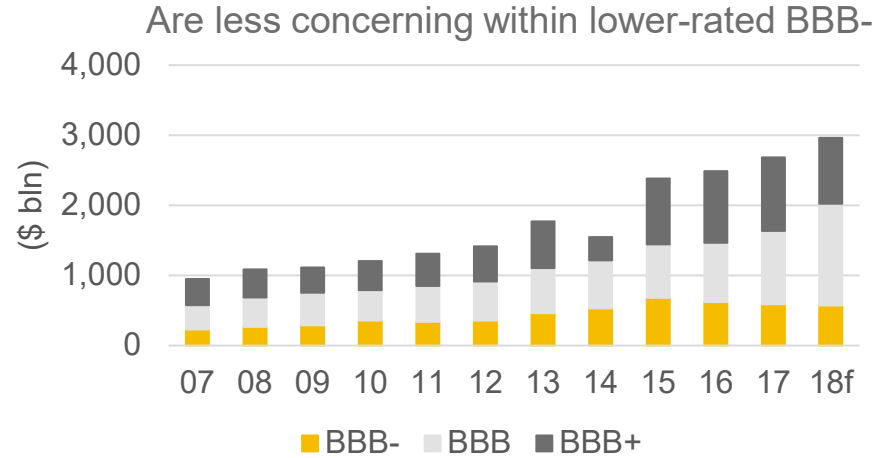
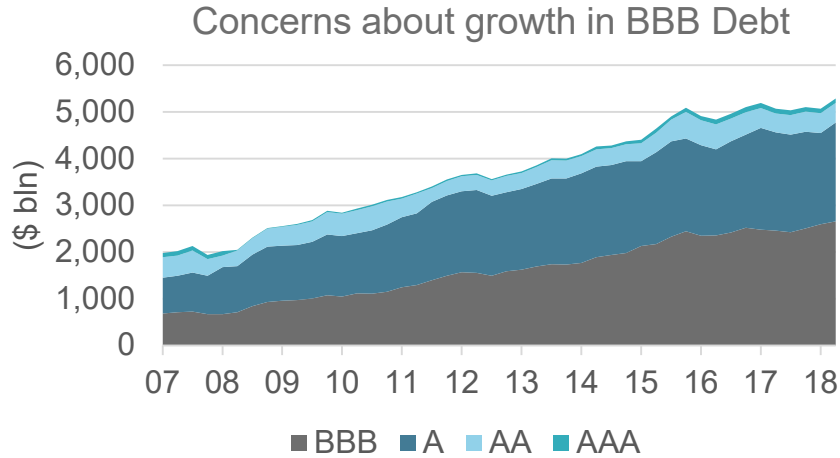


Source: Barclays  
Data as of March 31, 2019





# BBB Debt: What's It All ABBBout?



Source: BloombergBarclays, Standard & Poor's, Goldman Sachs and Voya Investment Management  
 Upper left display: market value of the BloombergBarclays US Corporate Bond Index, by rating. Upper right display as represented by the market value of BBB+, BBB and BBB- rated debt. Lower left display as represented by the market value of BBB/BBB- rated debt on watch for downgrade and market value of BB/BB+ rated debt on watch for upgrade. Lower right display: IG Corps as represented by the BloombergBarclays US Corporate Bond Index, with BBB as represented by the Baa US Corporate Bond Index, Mega Issuers as defined by Top 50 Issuers in the BloombergBarclays US Corporate Bond Index, Mega BBB- as defined by Top 50 Issuers in the BloombergBarclays US Corporate Bond Index, with a rating of Baa3. High Yield as defined by BloombergBarclays US Corporate High Yield 2% Issuer Cap Index.



# Key Takeaways

---

- 1 With a 'data dependent' Fed, expect overreactions from the market
- 2 Central bank balance sheets are big, not a big problem yet
- 3 BBB concerns warranted, degree of market bearishness unwarranted
- 4 Prefer securitized credit to corporate credit risk

# Explanatory Notes

The information contained in this document has been prepared solely for informational purposes and is not an offer or invitation to buy or sell any security or to participate in any trading activity. This document is intended only for professional investors and describes a strategy only. Some material shown is compiled from third party sources thought to be reliable, but accuracy and completeness cannot be guaranteed. Any opinions expressed herein reflect our judgment at this date and are subject to change without notice. Neither Voya Investment Management nor any other company or unit belonging to Voya Financial, nor any of its officers, directors, or employees accept any liability or responsibility in respect to the information or any recommendations expressed herein. No liability is accepted for any losses sustained by readers as a result of using this publication or basing decisions on it. The value of your investments may rise or fall. Past performance is not indicative of future results. Investments involve risk. The primary risks of investing in market based securities include, but are not limited to, credit risk (the risk that a borrower may default in the payment of interest and/or principal on its loans), interest rate risk (the risk that the yield on an investment will rise and fall in response to changes in market rates of interest), and market risk (the risk that the value of an investment will rise or fall in response to general economic conditions and events).

The account information presented in this report is based on the records and information provided by Voya Investment Management. The results may be preliminary and unreconciled and are subject to change. Voya Investment Management does not guarantee the accuracy of the information contained in this portfolio accounting report. The report is for informational purposes only and should not be relied upon or construed to be final. Clients are advised to refer to their custodial statements and confirmations for trade and holdings information.

## Footnotes

### *Portfolio Characteristics*

The portfolio specific characteristics (such as Average Duration, Average Yield, etc.) are based on the total portfolio market value including cash and derivatives, as provided by our valuation provider (BNY Mellon) and security characteristics provided by BlackRock Solutions which utilizes a different pricing hierarchy (Barclays). BNY Mellon prices combined with Barclays analytics will result in different portfolio averages than are reported. Portfolio and Benchmark averages (Duration, Yield to Maturity, Convexity and Average Life) are reported directly from BlackRock Solutions using Blackrock models and assumptions. As such, the Benchmark Analytics provided above may be different from Barclays. Top ten credit exposures include cash.

### *Ratings*

The portfolio's average quality rating is calculated as a market value-weighted average of the rating assigned to all positions, including derivative securities, but excluding non-rated securities held within the portfolio measured and reported as of the date of this report. The "Effective Rating" is determined as follows: Voya IM seeks individual security ratings from three credit rating agencies that are registered with the SEC as nationally recognized statistical rating organizations -- typically Moody's, S&P and Fitch. If ratings are available from all three agencies, the security will be assigned the median rating. If ratings are available from only two of the agencies, the lower of the ratings will be used. If a rating is available from only one agency, then that rating will be used. If ratings are not available from any of the three agencies, then we may either assign the security an internal rating or mark it as "N/R" (not rated). AAA is the highest (best) Effective Rating, and D is the lowest (worst) Effective Rating. When an Effective Rating is reported for a group of securities (such as for an asset class or the overall portfolio), it is calculated as a market value-weighted average of the Effective Rating assigned to each component security (excluding securities without an Effective Rating). Please note that Voya does not endorse or affirm the Effective Ratings or any agency ratings.



# Explanatory Notes

Furthermore, credit rating agencies disclaim all warranties and liability for their ratings, which (a) should be viewed as their opinions and not as statements of fact or recommendations as to suitability or to purchase, hold, or sell a security and (b) are not guaranteed as being accurate, timely or available. For derivative securities, swap contracts are rated on the basis of the underlying security, however, futures contracts are treated as a combination of Treasury securities and cash positions, they have no net impact to the average quality rating in the portfolio. Measures pertaining to average credit quality may change over time and illustrations presented in the client report are for informational purposes only. Individual client investment guidelines may have different rules and the foregoing presentation is not meant to represent a compliance certification of the portfolio's overall credit quality.

This report may contain information obtained from third parties, including ratings from credit ratings agencies. Reproduction and distribution of third party content in any form is prohibited except with the prior written permission of the related third party. Third party content providers do not guarantee the accuracy, completeness, timeliness or availability of any information, including ratings, and are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, or for the result obtained from the use of such content. THIRD PARTY CONTENT PROVIDERS GIVE NO EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE. THIRD PARTY CONTENT PROVIDERS SHALL NOT BE LIABLE FOR ANY DIRECT, INDIRECT, INCIDENTAL, EXEMPLARY, COMPENSATORY, PUNITIVE, SPECIAL OR CONSEQUENTIAL DAMAGES, COSTS, EXPENSES, LEGAL FEES, OR LOSSES (INCLUDING LOST INCOME OR PROFITS AND OPPORTUNITY COSTS OR LOSSES CAUSED BY NEGLIGENCE) IN CONNECTION WITH ANY USE OF THEIR CONTENT, INCLUDING RATINGS. Credit agency ratings are statement of opinions and are not statements of fact or recommendations to purchase, hold or sell securities. They do not address the suitability of securities or the suitability of securities for investment purposes, and should not be relied on as investment advice.

## ***Bond Sector Comparisons***

Sector weights are based on total portfolio market value, which includes security market values (including accrued income), plus cash, cash equivalents and derivatives (variation margin for Futures, and Market Value of Swaps).

With the exception of the Treasury, ABS, and CMBS Sectors, the following sector groupings apply:

- Treasury and Cash includes Cash/Cash equivalents which includes trade receivables/payables (which may be net positive or negative), TBA liabilities, accrued income on securities that have been sold pending settlement (accrued income is otherwise reflected in the other sectors), and in Sector Weights, also includes variation margin for futures (which may be positive or negative).
- *Government Related* sector is comprised of Agency, Local Government, Sovereign and Supranational securities.
- *Corporate* sector is comprised of Financial Institutions, Industrial and Utility securities.
- *Agency Mortgages* sector contains Fannie Mae (FNMA), Freddie Mac (FHLMC), and Government National Mortgage Association (GNMA).
- *Securitized* sector is comprised of ABS, CMBS, and Agency and Non-Agency Mortgage Backed Securities.
- *Other* sector is comprised of Convertibles, Common and Preferred Stocks and Municipal Bonds.
- "Derivatives" (if applicable) includes forwards, options and swaps (see Appendix – Portfolio Holdings Derivatives for details) and futures.



# Disclosure

---

This information is proprietary and cannot be reproduced or distributed. Certain information may be received from sources Voya Investment Management (Voya IM) considers reliable; Voya IM does not represent that such information is accurate or complete. Certain statements contained herein may constitute "projections," "forecasts" and other "forward-looking statements" that do not reflect actual results and are based primarily upon applying retroactively a hypothetical set of assumptions to certain historical financial data. Actual results, performance or events may differ materially from those in such statements. Any opinions, projections, forecasts and forward-looking statements presented herein are valid only as of the date of this document and are subject to change. Nothing contained herein should be construed as (i) an offer to buy any security or (ii) a recommendation as to the advisability of investing in, purchasing or selling any security. Voya IM assumes no obligation to update any forward-looking information. Past performance is no guarantee of future results.