Voya Multi-Sector Income ETF (VMSB)

Built for income

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Read our Fund Fact Sheet

Strategy overview

Active management approach to opportunistically invest across credit markets in pursuit of attractive income and total return opportunities.

Key takeaways

- The combination of resilient growth and stubbornly above-target inflation put upward pressure on Treasury yields. The selloff in rates eventually bled over to credit, and drove spreads modestly wider. Artificial intelligence remained a dominant theme, supporting growth via corporate earnings, while sustaining capital expenditure and further reinforcing inflationary pressures.
- **Based on NAV net-of-fees performance, the Voya Multi-Sector Income ETF outperformed its benchmark the Bloomberg U.S. Aggregate Bond Index (the Index) during the quarter.**
- We expect the U.S. Federal Reserve to deliver two additional rate hikes, largely reversing last year's insurance cuts rather than beginning a prolonged tightening cycle. Longer term, inflation should moderate gradually, but AI-related demand and geopolitical risks could keep it closer to 3% than the Fed's 2% target.

Portfolio review

Third-quarter developments underscored resilient growth but reinforced concerns that inflation would remain elevated. The labor market rebounded from its 2025 weakness, inflation proved persistent, disruptions tied to Iran continued, and AI became an increasingly powerful influence on economic activity and capital markets. Despite higher energy prices and interest rates, payrolls continued to grow, unemployment remained relatively low, and broader activity exceeded expectations. Subdued wage growth helped limit the risk of a wage-price spiral even as labor supply remained structurally constrained.

Inflation remained the dominant macroeconomic challenge. The war in Iran and energy-market disruptions periodically lifted oil prices and renewed concerns about commodity-driven inflation, but persistent underlying pressures mattered more for fixed income investors. Shelter inflation moderated and wage growth remained contained, yet resilient demand and the AI investment boom kept core inflation elevated. Spending on data centers, power infrastructure, semiconductors, and related supply chains supported growth while increasing demand for labor, energy, and materials. Markets increasingly expected inflation to remain closer to 3% than the Fed's 2% target.

An investor should consider the investment objectives, risks, charges and expenses of the Fund(s) carefully before investing. For a free copy of the Fund's prospectus or summary prospectus, which contains this and other information, visit www.voyaetfs.com or call (800) 334-3444. Please read all materials carefully before investing.

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Monetary policy expectations shifted accordingly. Fed Chair Kevin Warsh emphasized the Fed's commitment to restoring inflation to its 2% target while reducing forward guidance. His speeches repeatedly drove outsized Treasury-curve moves, particularly a hawkish Jackson Hole message. Although acknowledging better inflation data, he argued it was insufficient to confirm a sustainable return to target. Markets interpreted this as a signal of further tightening, sharply increasing rate-hike expectations. By September, a hike was largely priced in, and the Fed delivered one.

Shifting policy expectations pushed short-dated Treasury yields higher. Longer-term yields also faced pressure from resilient growth, sticky inflation, persistent fiscal deficits, and financing needs tied to the AI investment cycle. Treasury Secretary Bessent responded by increasing Treasury buybacks, but the program remained too small relative to the market to materially affect yields. By quarter-end, yields across the curve were near their highest levels in years.

Credit markets remained resilient for most of the quarter. Investment grade spreads stayed near historically tight levels despite heavy AI-related issuance. High yield and senior loans benefited from healthy earnings and manageable defaults, though AI disruption risks persisted in select software and technology-adjacent sectors. In securitized markets, improving commercial mortgage-backed securities (CMBS) fundamental factors were offset by higher rates and heavy issuance. Non-agency residential mortgage-backed securities (RMBS) benefited from resilient housing and stable collateral, while prepayments remained muted. Agency mortgage-backed securities (MBS) lagged amid elevated rate volatility. Late-quarter rate weakness eventually reached credit, modestly widening spreads and leaving most fixed income sectors with negative total and excess returns.

Based on NAV net-of-fees performance, the Voya Multi-Sector Income ETF outperformed the Index during the quarter. Security selection decisions contributed to outperformance led by agency mortgages, where the Fund's collateralized mortgage obligations (CMO) holdings outperformed. Selection within asset-backed securities (ABS) was also additive driven by the Fund's allocation to collateralized loan obligations (CLOs). Elsewhere, selection within IG corporates also added to returns driven by a preference for shorter-dated bonds. The Fund's duration positioning was also additive to performance, as the Fund maintained a shorter duration stance versus the benchmark as rates rose during the quarter. Sector allocation modestly detracted from relative performance driven primarily by the Fund's allocation to HY corporates, where all of the underperformance occurred during the last month of the quarter as spreads widened. This offset positive contributions from the Fund's allocations to asset backed securities (ABS), bank loans, CMBS, and non-agency RMBS.

Current strategy and outlook

The U.S. economy continues to expand near trend, but the sources of growth are becoming narrower. AI investment, fiscal support and spending by higher-income households remain durable tailwinds in the near term, but unsustainable in the long term. AI capital spending cannot grow at its current pace indefinitely, although strong hyperscaler balance sheets, committed projects and relatively rate-insensitive demand make a meaningful slowdown unlikely over the next several years. Fiscal deficits also appear unlikely to narrow soon, even as rising interest costs underscore that the current trajectory is unsustainable. Consumer spending is similarly bifurcated: wealth effects continue to support higher-income households, while cumulative inflation, borrowing costs, and slower real income growth are pressuring lower- and middle-income consumers.

AI remains one of the more interesting dynamics, given its impact on both the growth and inflation outlook. The buildout of AI capabilities should continue to support capital spending and corporate earnings. However, this demand is colliding with physical constraints in electricity, grid capacity, materials, specialized labor, and advanced chips. This imbalance also makes the economy less responsive to monetary policy: higher rates can restrain consumers, housing and rate-sensitive businesses, but they cannot quickly expand power supply, accelerate chip production or reverse commodity and supply-chain disruptions.

The Fed's September rate increase therefore looks more like a recalibration than the start of an aggressive inflation-fighting campaign. The economy proved stronger, unemployment lower and inflation firmer than policymakers anticipated when they delivered 75 basis points (bp) of insurance cuts this time last year. Chair Warsh's hawkish Jackson Hole message and emphasis on the Fed's commitment to its 2% inflation target made some reversal of that accommodation likely. Our base case is for two additional 25 bp hikes, effectively removing those earlier cuts rather than pushing policy deeply restrictive.

Inflation should moderate at the margin as shelter pressures ease, wage growth normalizes and earlier tariff effects fade, but a quick return to 2% remains unlikely. Supply disruptions, geopolitical risks, elevated energy costs and AI-related demand could keep inflation closer to 3%, while resilient spending among higher-income households adds another layer of persistence. Importantly, labor market dynamics and a slower pace of wage growth reduce the risk of a wage-price spiral that would typically force a prolonged tightening cycle. The more likely outcome is a cautious, data-dependent Fed that pauses between moves while assessing inflation, employment, and financial conditions. Reduced forward guidance will keep markets sensitive to each economic release.

For fixed income investors, higher yields provide a more attractive starting point and helps to provide a meaningful cushion against volatility. Yields near their highest levels since the global financial crisis continue to attract income-oriented buyers, even as tight spreads argue against broad risk taking. We favor measured duration exposure, as the market has priced in more tightening than what we think the Fed will ultimately deliver. Within credit, carry is likely to drive returns rather than further spread compression. We remain selective in corporate credit, favoring higher-quality issuers, resilient balance sheets and beneficiaries of infrastructure spending. Securitized credit also offers opportunities, particularly in mortgage credit and consumer asset-backed securities, although heavy issuance and pressure on lower-income borrowers warrant discipline. Overall, the combination of attractive income, uneven growth, and elevated volatility supports a balanced approach built around quality, diversification, and downside mitigation.

The **Bloomberg U.S. Aggregate Bond Index** is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The index includes treasuries, government-related and corporate securities, fixed-rate agency MBS, ABS and CMBS (agency and non-agency).

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