Voya Core Bond ETF (VCOB)

Active management where it matters

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Read our Fund Fact Sheet

Strategy overview

Active management approach to invest in a diversified mix of investment grade securities in pursuit of outperforming the index.

Key takeaways

- The quarter was defined by a repricing of the policy outlook, as resilient labor data and sticky inflation pushed markets away from expectations for rate cuts and toward the possibility of hikes. While rates moved higher in response, spreads continued to narrow from the wides set earlier in the year, as fears of escalation in the war with Iran eased and economic fundamental factors remained stable.
- **Based on NAV net-of-fees performance, the Voya Core Bond ETF outperformed its benchmark the Bloomberg U.S. Aggregate Bond Index during the quarter driven by sector allocation and security selection. Duration positioning detracted from return.**
- The economy should remain resilient, but growth is becoming increasingly dependent on a narrower set of drivers, including artificial intelligence investment, fiscal spending, and higher-income consumption. That mix supports continued expansion but also leaves the outlook more vulnerable to policy uncertainty, consumer fatigue, and episodic volatility.

Portfolio review

The second quarter of 2026 began with an upside surprise in the March employment report. The report showed a 178,000 gain in employment (later revised higher to 214,000) while the unemployment rate fell to 4.3%. Coming on the heels of a sharply negative February report, the rebound complicated the macro narrative rather than clarifying it. Investors were left debating whether the labor market was reaccelerating or merely stabilizing after a period of unusual volatility. That uncertainty translated directly into fixed income markets, where expectations for U.S. Federal Reserve policy shifted noticeably. At various points during the quarter, markets began entertaining the possibility that the Fed's next move could be a hike rather than a cut as inflation remained elevated and growth indicators continued to exceed expectations. Subsequent April and May employment reports reinforced the view that the labor market remained healthy, reducing the urgency for rate cuts.

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Inflation remained at the center of market attention throughout the quarter. Higher energy prices stemming from the ongoing disruption in the Middle East drove headline inflation measures higher, while tariffs and cyclical pressures kept core inflation stubbornly elevated. Although shelter inflation continued to moderate, progress elsewhere remained uneven, reinforcing the view that the final stage of disinflation would be more difficult than the first. Markets increasingly converged around the idea that inflation was likely to settle closer to 3% than the Fed's 2% target. Combined with the resilience in labor markets, this backdrop pushed interest rates higher and fueled recurring debate about where policy rates ultimately needed to settle.

The war with Iran remained a key driver of market sentiment. While headlines continued to swing between escalation and de-escalation, diplomatic developments generally reduced fears of the most disruptive scenarios. Oil prices, which had surged earlier in the year amid disruptions to global shipping and energy supply, retraced much of those gains and finished the quarter near pre-war levels, helping to ease some inflation fears. Importantly, markets appeared to move beyond peak uncertainty even before a definitive resolution emerged.

A defining feature of the quarter was the continued dominance of AI as a macroeconomic and capital markets theme. AI-related capital expenditure plans remained enormous and continued to drive one of the largest debt-financing cycles in recent history. Across public and private markets, companies sought funding for data centers, power infrastructure, semiconductor production, and broader AI initiatives. Investment grade (IG) corporate credit absorbed the largest share of issuance, with markets demonstrating a remarkable capacity to fund increasingly ambitious spending programs. Unlike previous investment booms, however, much of the borrowing came from companies with strong balance sheets, substantial liquidity, and ready access to capital. As a result, investors generally viewed the surge in issuance as a valuation and technical challenge rather than a systemic credit concern.

The quarter concluded with a change in leadership at the Fed, with Kevin Warsh confirmed for the role of Chairman. In his first press conference, he struck a hawkish tone, reemphasizing the Fed's commitment to restoring inflation to its 2% target. Additionally, he removed much of the forward guidance that had become a hallmark of modern central banking, thereby placing greater responsibility on markets to interpret economic data and price the likely path of policy.

Financial markets spent much of the quarter adjusting to a higher-for-longer interest rate environment. Treasury yields moved steadily higher as investors confronted persistent inflation pressures, resilient labor market data, and economic growth that continued to outperform expectations. The selloff in rates was led by the front end, as markets increasingly priced the possibility that the Fed's next move could be a rate hike rather than a cut. Despite higher rates, credit markets proved resilient. Fears of an economic slowdown faded as the quarter progressed, and spreads retraced much of their recent widening, finishing the quarter near historically tight levels and reflecting renewed investor confidence in the durability of economic fundamental factors.

Based on NAV net-of-fees performance, the Voya Core Bond ETF outperformed its benchmark during the quarter. Outperformance was driven by sector allocation given our underweight in U.S. Treasuries and overweight to spread sectors. Security selection also contributed led by selection within agency mortgage-backed securities (MBS), due to our off-benchmark collateralized mortgage obligation (CMO) positions. Duration positioning detracted from returns driven by the portfolio's longer duration profile relative to the Index.

Current strategy and outlook

As we look ahead, we expect the economy to remain resilient, but a reacceleration is less likely than the headline data might suggest. The United States growth should continue to hold near trend, supported by AI investment, persistent fiscal spending, and consumption aided by generational wealth transfer. That said, the consumer is becoming a weaker force. Lower-income households are facing more pressure from cumulative price increases, higher borrowing costs, and slowing real income growth, while stronger spending from upper-income cohorts is unlikely to provide the same broad support indefinitely. The result is an expansion that is increasingly dependent on a narrower set of durable growth drivers.

The most important of those drivers remains AI. The AI buildout is still in its early stages and should continue to support capital spending across data centers, semiconductors, power infrastructure, and related supply chain assets. In the near term, this investment cycle is more likely to be inflationary than disinflationary, as it increases demand for energy, labor, materials, and financing. When combined with national security concerns, the near-term outlook is clouded by regulatory risk—especially with midterms approaching. Over time, however, AI has the potential to improve margins, expand supply capacity and drive powerful long-term productivity gains that put downward pressure on inflation.

As for labor markets, payroll growth is likely to stabilize as tariff-related uncertainty and fears of AI-driven job displacement fade. At the same time, labor supply remains structurally constrained by demographics and tighter immigration policy, which should limit downside pressure on wages. This points to a labor market that may look calmer but not soft, with wider dispersion across industries. Health care and other structurally supported sectors may continue to add jobs, while more cyclical areas could show slower hiring. For the Fed, this creates a difficult policy mix: wage growth may be contained enough to avoid a classic wage-price spiral, yet labor supply constraints may keep inflation from returning quickly to target.

Meanwhile, the disinflationary impulse from shelter, wage normalization, and fading tariff effects should help keep price pressures from moving higher. However, recurring supply shocks, a more fragmented global economy, AI-driven demand, and resilient spending from higher-income consumers should keep inflation closer to 3% than the Fed's 2% target. Central banks appear increasingly willing to tolerate some above-target inflation, but that tolerance may not translate into policy certainty. Under Chairman Warsh, the Fed has reduced forward guidance and shifted more responsibility to markets to interpret data. That should make rates more reactive to each data print, keeping volatility elevated even if the policy rate remains on hold.

For fixed income investors, this is a constructive environment but requires diligence. Elevated yields provide a compelling source of income, and provides an important cushion against slower growth, inflation surprises or policy communication that unsettles markets. We would expect carry to remain an important driver of returns, but broad beta exposure is less attractive with spreads at relatively tight levels. The better opportunity is likely to come from sector allocation and security selection: identifying issuers that can benefit from AI, infrastructure spending, and durable earnings growth, while avoiding credits exposed to overinvestment, weaker consumers or funding stress. In short, elevated yields continue to offer meaningful income potential, but with spreads tight and volatility likely to remain elevated, the second half of 2026 requires a delicate balance between yield 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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