Voya Core Bond ETF (VCOB)

Active management where it matters

Paul Buren , CFA
Portfolio Manager

Rajen Jadav , CFA
Portfolio Manager

Sean Banai , CFA
Portfolio Manager

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 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.
- **Voya Core Bond ETF performed in line with its benchmark the Bloomberg U.S. Aggregate Bond Index (the Index) on a gross-of-fees basis but underperformed on a NAV net-of-fees basis during the quarter. Security selection contributed to results while duration positioning and sector allocation detracted from return.**
- 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

A range of developments during the third quarter of 2026 underscored the resilience of economic growth while reinforcing concerns that inflation would remain elevated: the labor market appeared to have rebounded from the weakness in 2025, inflation proved more persistent than expected, geopolitical disruptions tied to Iran continued, and AI remained an increasingly powerful influence on both economic activity and capital markets. Despite concerns that higher energy prices and elevated interest rates would slow growth, the U.S. economy remained remarkably resilient. Payroll growth continued throughout the quarter, unemployment remained relatively low, and broader economic activity held up better than many anticipated. At the same time, wage growth remained relatively subdued, helping mitigate the risk of a classic wage-price spiral even as labor supply remained structurally constrained.

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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Inflation remained the dominant macroeconomic challenge. Headline measures were heavily influenced by the war in Iran and ongoing disruptions to energy markets, which periodically pushed oil prices higher and renewed concerns about commodity-driven inflation. Yet the more important development for fixed income investors was the persistence of underlying inflation pressures. While shelter inflation continued to moderate and wage growth remained contained, strong demand associated with resilient economic growth coupled with the continuing AI investment boom kept core inflation stubbornly elevated. Massive capital expenditures in data centers, power infrastructure, semiconductors, and related supply chains supported growth but also increased demand for labor, energy, and other materials. As a result, markets increasingly converged around the view that inflation was likely to remain closer to 3% than the Fed's 2% target.

Expectations for monetary policy evolved alongside these dynamics. From the outset, Fed Chair Kevin Warsh sought to reinforce the institution's credibility by emphasizing the Fed's commitment to restoring inflation to its 2% target. And despite reducing the degree of forward guidance provided to markets, Warsh's speeches repeatedly generated outsized moves across the Treasury curve, including in a notably hawkish message at Jackson Hole. There, he acknowledged improvements in inflation data but argued they were insufficient to establish confidence that inflation was sustainably returning to target. Markets interpreted the speech as a clear signal that additional tightening was likely, leading rate-hike expectations to rise sharply. By the September meeting, markets had largely priced in a hike, and the Fed ultimately delivered one.

The front end of the Treasury curve reflected these shifting expectations, resulting in higher short-dated yields. The long end faced a broader set of influences. Resilient growth, sticky inflation, persistent fiscal deficits, and the financing demands associated with the AI investment cycle all contributed to upward pressure on longer-term yields. The move in yields caught the attention of Treasury Secretary Bessent, who announced an increase in the size of Treasury buybacks. However, even after the increase, the size of the program was ultimately too small relative to the size of the Treasury market to materially influence the direction of yields. By quarter-end, yields across the curve sat near the highest levels seen in years.

For most of the quarter, credit markets proved remarkably resilient. Within corporate credit, investment grade spreads remained near historically compressed levels despite heavy issuance related to AI-related investments. High yield and senior loans benefited from healthy corporate earnings and manageable default activity, although AI-related disruption risks remained an area of focus in select software and technology-adjacent sectors. Within securitized markets, commercial mortgage-backed securities (CMBS) fundamental factors continued to improve, although higher rates and heavy issuance created a headwind. Non-agency residential mortgage-backed securities (RMBS) continued to be supported by a resilient housing market and generally stable collateral performance, however prepayment activity remained muted. Agency mortgage-backed securities (MBS) was the outlier, as the sector continued to face headwinds from elevated rate volatility. All this being said, the selloff in rates eventually bled over to credit, leading spreads to widen modestly in the final days of the quarter. As a result, most fixed income sectors delivered negative results on both a total and excess return basis.

Voya Core Bond ETF performed in line with the Index on a gross-of-fees basis but underperformed on a NAV net-of-fees basis during the quarter. Security selection contributed led by selection within agency MBS, due to our off-benchmark collateralized mortgage obligation (CMO) positions. Sector allocation detracted due to our underweight in U.S. Treasuries and overweight to spread sectors. Duration positioning detracted from returns driven by the portfolio's longer duration profile relative to the Index and the repricing of the yield curve over the quarter.

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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