

From the Desk of the Fixed Income Team

The Enduring Value of Core Bonds in a Diversified Portfolio



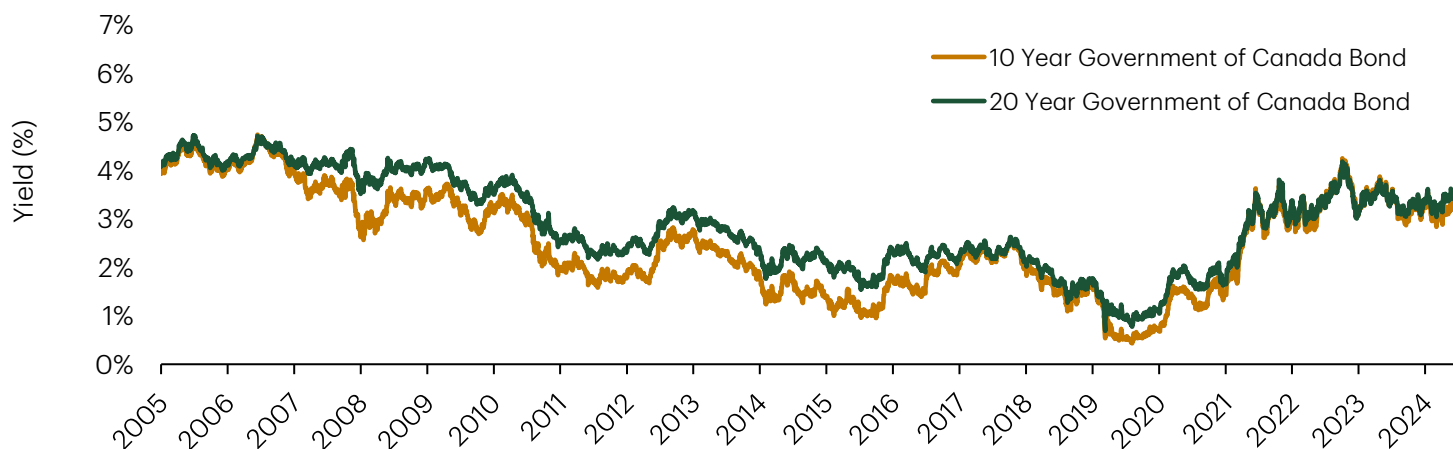
At a Glance:

- While short sovereign yields and credit spreads have remained anchored, intermediate and longer-term rates have spiked approximately 70 basis points higher since March 2025 and are at levels not seen since the early 2000s.
- Yields are currently near 20-year highs, with technical indicators flashing oversold. For investors trying to predict the peak, it can be a difficult task.
- Today's bond yields are at attractive levels, making it an excellent opportunity to add some recession insurance to portfolios, especially with equity valuations at or near all-time highs.
- **TD Canadian Bond Fund**, **TD Canadian Core Plus Bond Fund** and **TD Fixed Income Pool** can offer portfolio protection in the event of a recession through allocations to intermediate government bonds, and the ability to play offense through high yield, U.S. credit, and private credit in some cases.

Recent Elevated Yields Can Provide a Window of Opportunity

While short sovereign yields and credit spreads have remained anchored, intermediate and longer-term rates have spiked higher since March 2025, and are approaching 20-year highs as seen in **Chart 1**. This recent spike is entering 'oversold' territory, indicating an attractive entry point for bond investors. For our Funds, such as the **TD Canadian Core Plus Bond Fund** and **TD Fixed Income Pool**, this has translated to an approximate 4.6% yield-to-maturity (YTM) - well above the decade average of 3.1% to 3.3%. The 'core' component of these strategies is composed of investment grade Canadian corporate bonds and government bonds, including those with longer maturities. For investors thinking about their fixed income allocation, this can present a rare opportunity to lock in strong income potential.

Chart 1: Canadian Government Yields Over Two Decades

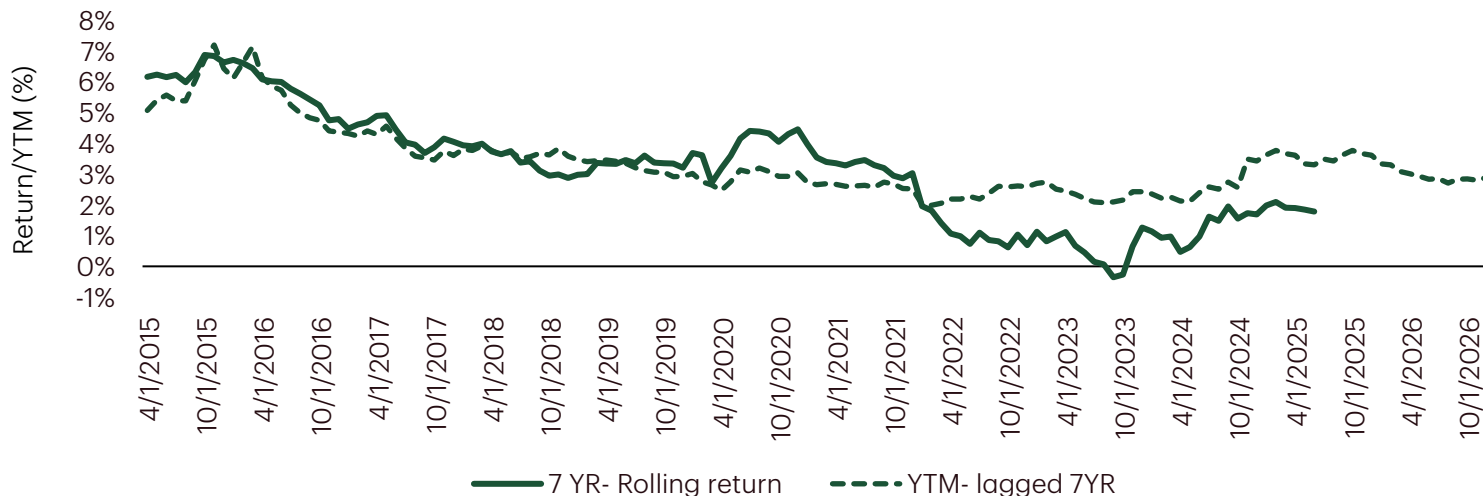


Source: Bloomberg L.P. As of July 21, 2025.

Higher Starting Yields are Indicative of better Future Returns

Using the **TD Canadian Core Plus Bond**, we can illustrate the close relationship between YTM and the subsequent return. In **Chart 2** below, the dotted line, YTM, is a *quasi-crystal ball* for investors as it can provide a good idea of future expected total return.

Chart 2: TD Canadian Core Plus Bond Fund – Rolling 7-Year Returns Tracked Against YTM

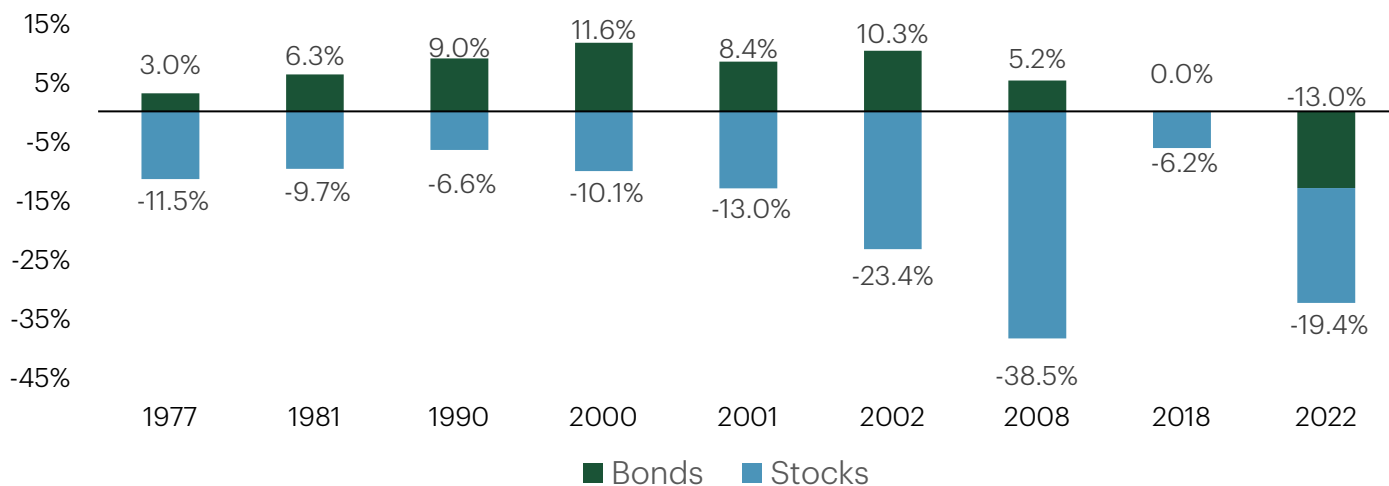


Source: TD Asset Management Inc. As of June 30, 2025.

Provides Downside Risk Protection

When equity markets experienced significant drawdowns, core bonds have historically helped cushion investors' portfolios. In fact, as shown in **Chart 3**, over the past fifty years, core bonds have delivered positive returns 90% of the time when equities declined – offering valuable stability when needed most.

Chart 3: Bonds can Provide a Cushion During Equity Drawdowns



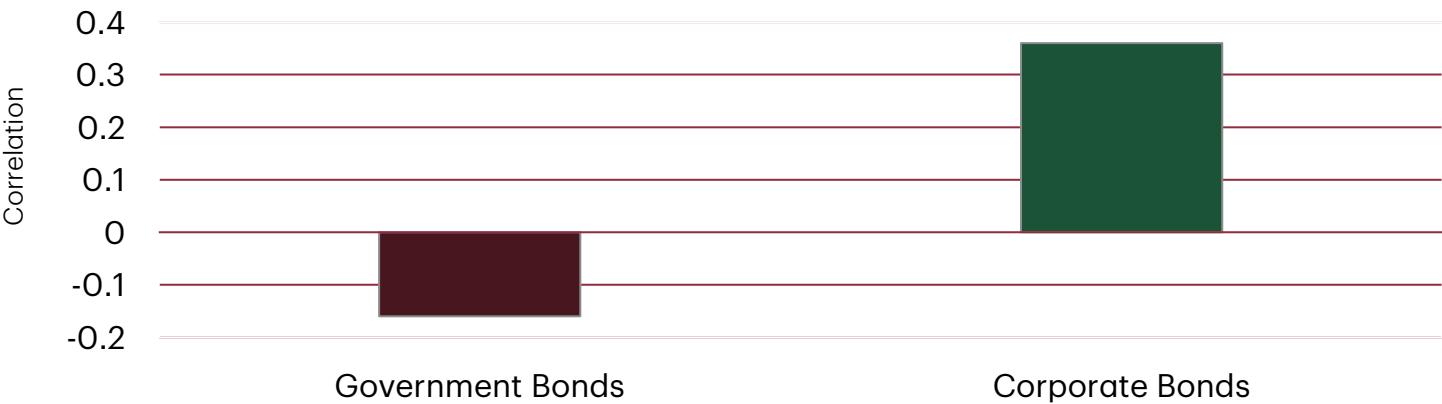
Source: Bloomberg L.P. As of June 30, 2025.

Equity: S&P 500 Index; Bonds: Bloomberg U.S. Aggregate Bond Index

Bonds Have a Core Role in Portfolios

Not only do bonds act as portfolio diversifiers, but they are also a critical feature for portfolios when building and compounding wealth. Government bonds provide investors’ the power to withstand large drawdowns, due to their historically negative correlation with equities relative to corporate bonds. Further, by holding core bonds, investors can opportunistically invest into growth assets that have sold off significantly (whereas their core holdings are up in value). This puts investors in a stronger position to grow their investments over time.

Chart 4: Equity Market Correlations



Source: Bloomberg L.P. As of June 30, 2025.

Accessing Core Bonds Through TD

The **TD Fixed Income Pool**, **TD Canadian Core Plus Bond Fund** and **TD Canadian Bond Fund** can offer portfolio protection in the event of a recession through allocations to intermediate government bonds, while active management allows the team to capture yield across diverse sectors and for some of the funds listed this includes high yield, U.S. credit, and mortgages. This balance of defense and offense makes it an ideal core holding in an investor's portfolio.

In the table below, we have listed the applicable TD 'core' Bond products, with their corresponding characteristics.

Fund/ETF	Yield	Duration	Why Invest
TD Fixed Income Pool	4.60%	6.13	Relative to the Funds listed below, TD Fixed Income Pool has greater duration flexibility and may take U.S. duration exposure as part of its active rate management strategy, when opportunities arise.
TD Canadian Core Plus Bond Fund	4.60%	7.05	Similar to the TD Canadian Bond Fund, duration is actively managed with minimal deviations from benchmark, but with slightly more volatility and higher return potential. Primarily invested in high-quality Canadian investment grade bonds, with the potential to enhance returns through 'plus' levers such as non-CAD and/or high-yield exposure, along with mortgages and private debt.
TD Canadian Bond Fund	4.24%	7.04	Conservative, stable income generation with lower risk and lower yield relative to the Funds above. As such, it is a better source of stability in portfolios with significant allocations to growth assets (equities) or notable exposure to credit (high yield).
TD Canadian Bond Index Fund	3.70%	6.92	To gain passive exposure to broad and diversified Canadian fixed income portfolios.
TD Canadian Aggregate Bond Index ETF	3.70%	6.93	To gain passive exposure to broad and diversified Canadian fixed income portfolios with minimal fees.

Source: TD Asset Management Inc., as of July 18, 2025.

**For further information,
please contact your TDAM representative.**



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