



# From the Desk of the Fixed Income Team

## Macro and Fixed Income Update



By Rohan Bhargava, CFA, and Lauren Bellai, CFA. Edited by Meghry Izmirian.

While economic indicators continue to fluctuate, the Fixed Income Team (the "Team") at TD Asset Management Inc., ("TDAM", "we", "our") remains tactical in the face of uncertain market conditions and confident in fixed income's ability to offer meaningful risk-adjusted returns to balanced portfolios over the long-term.

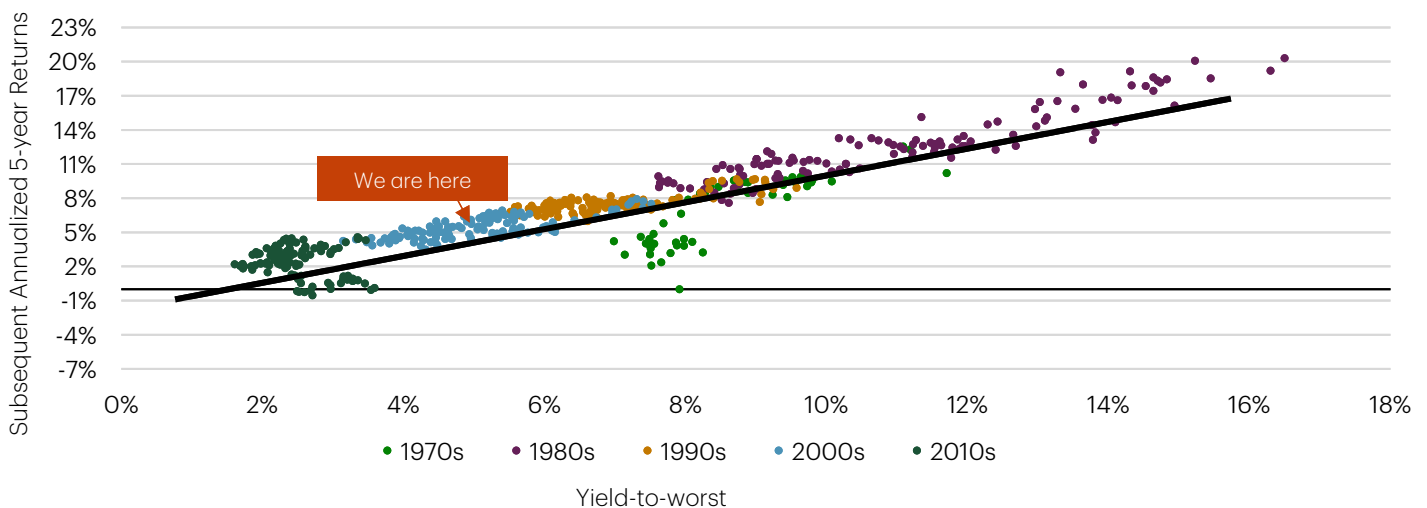
### The Economic Cycle

The tide is turning as a majority of global central banks are entering rate cutting cycles, making interest rates less restrictive. The 50 basis point ("bps") rate cut by the U.S. Federal Reserve (the "Fed") in September, amid a gradually cooling labour market and easing inflation nearing long-term targets, marked a regime change. The slowdown in Canada has been more pronounced than in the U.S., with inflation, growth, and labour markets experiencing a sharper decline. With inflationary pressures easing, central banks are now trying to balance potential future downside risks to growth and employment.

### Higher Yields are a Strong Predictor of Future Returns

As seen in **Chart 1**, we are entering a fixed income environment where yields are in the 4% to 5% range, which has led to mid to high single-digit returns historically. Over the past year, the bond market generated attractive returns driven by higher all-in-yields and rate cuts being priced in. Looking ahead, we expect returns in the mid-to-high single digits driven by attractive income levels, with the opportunity for higher returns if more rate cuts get priced in.

**Chart 1: Current Yields Offer Strong Entry Point to Maximize Future Returns**

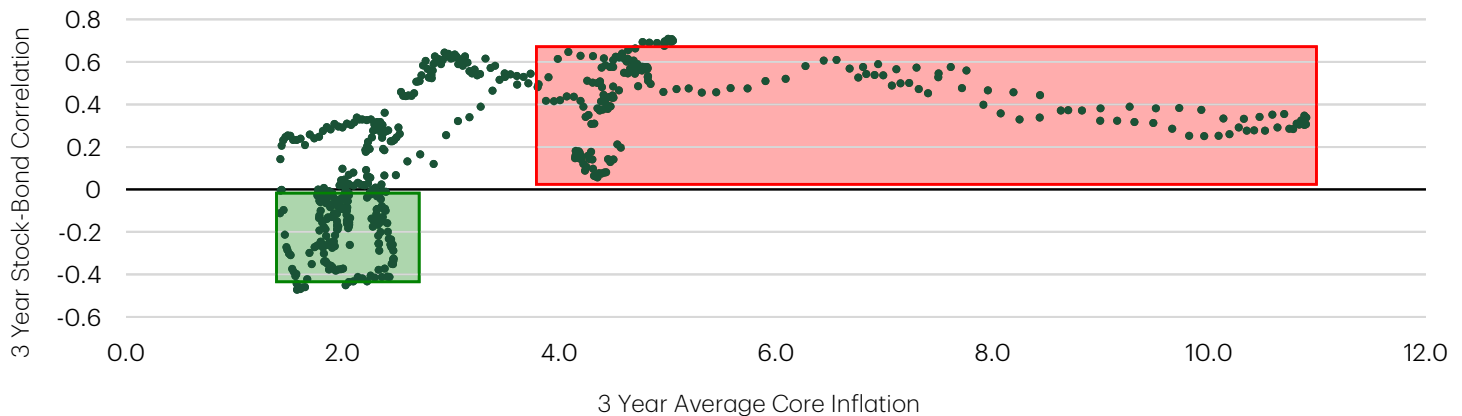


Index: BBG U.S. AGG TR VAL unhedged Index.  
Source: Bloomberg Finance L.P. As of September 30, 2024.

## The Role of Fixed Income – Current Positioning and Outlook

As seen in **Chart 2**, when inflation is sustained below 3%, similar to the environment we are reentering, bonds historically regain their status as a portfolio diversifier resuming their inverse correlation with equities (i.e., when equity prices go down, bond prices go up). This helps mitigate portfolio risk, as bonds provide a hedge in volatile market conditions. In addition to providing diversification, preserving capital and reducing volatility, bonds provide investors with an attractive opportunity to add income, particularly when including corporate credit. The real returns in fixed income today make for a compelling case for fixed income to be added to investor's portfolios.

**Chart 2: Sustained Low Inflation Reinstates the Stock-Bond Correlation**



Source: Bloomberg Finance L.P., as at September 30, 2024.

Within our portfolios, we have been neutral to modestly overweight duration and positioned for curve steepeners, but have been tactical as we assess the evolving macroeconomic environment. Our funds remain constructive on credit as we expect the policy normalization cycle to persist and broaden across markets which will be supportive for corporate fundamentals and spreads. We have not seen any immediate evidence of concerns in the Investment Grade ("IG") space. Barring a spike in unemployment levels, fundamentals in IG still require more time to worsen to trigger higher downgrades. We continue to favour Canadian IG due to better valuation levels compared to other global credit markets.

## The TDAM Advantage

At TDAM, our dynamic credit allocation over the cycle, both at an absolute level all the way down to sector and security selection is underpinned by our deep internal credit research capabilities and investment risk management. Our credit research and investment management teams are constantly reviewing and monitoring the economic landscape to find value and seek opportunities to take advantage of valuations within the market. This allows us to identify risks and opportunities quickly and action them. Through robust sector and security allocation, we are able to identify companies with healthy earnings, strong credit quality trends – that can weather a recession – and offer value either through a higher carry, and/or through potential spread compression opportunities. Through our collaboration with our credit research team, we are continuously evolving our investment strategies to deliver strong risk-adjusted returns over time in a variety of market conditions.

The **TD Target Maturity Bond Fund** and **TD Target Maturity Bond ETF**, released in 2024, are the two most recent additions to our fixed income product shelf, offering investors exposure to high quality fixed income exposure in their portfolios and serving as an excellent substitute to GICs in this rate cutting cycle.

## For Further Information, Please Contact your Investment Professional.



---

The information contained herein has been provided by TD Asset Management Inc. and is for information purposes only. The information has been drawn from sources believed to be reliable. Graphs and charts are used for illustrative purposes only and do not reflect future values or future performance of any investment. The information does not provide financial, legal, tax or investment advice. Particular investment, tax, or trading strategies should be evaluated relative to each individual's objectives and risk tolerance.

Certain statements in this document may contain forward-looking statements ("FLS") that are predictive in nature and may include words such as "expects", "anticipates", "intends", "believes", "estimates" and similar forward-looking expressions or negative versions thereof. FLS are based on current expectations and projections about future general economic, political and relevant market factors, such as interest and foreign exchange rates, equity and capital markets, the general business environment, assuming no changes to tax or other laws or government regulation or catastrophic events. Expectations and projections about future events are inherently subject to risks and uncertainties, which may be unforeseeable. Such expectations and projections may be incorrect in the future. FLS are not guarantees of future performance. Actual events could differ materially from those expressed or implied in any FLS. A number of important factors including those factors set out above can contribute to these digressions. You should avoid placing any reliance on FLS.

Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the fund facts and prospectus, which contain detailed investment information, before investing. Mutual funds are not guaranteed or insured, their values change frequently and past performance may not be repeated. The TD Mutual Funds/Products (the "Funds/Products") have been developed solely by TD Asset Management Inc. The Funds/Products are not in any way connected to or sponsored, endorsed, sold or promoted by the London Stock Exchange Group plc and its group undertakings (collectively, the "LSE Group"). FTSE Russell is a trading name of certain of the LSE Group companies. All rights in the FTSE Russell Index/Indices referred to in this document/publication (the "Index/Indices") vest in the relevant LSE Group company which owns the Index/Indices. FTSE® is a trade mark of the relevant LSE Group company and is used by any other LSE Group company under license. TMX® is a trademark of TSX, Inc. and used by the LSE Group under license. The Index is calculated by or on behalf of FTSE International Limited or its affiliate, agent or partner. The LSE Group does not accept any liability whatsoever to any person arising out of (a) the use of, reliance on or any error in the Index or (b) investment in or operation of the Funds/Products. The LSE Group makes no claim, prediction, warranty or representation either as to the results to be obtained from the Funds/Products or the suitability of the Index for the purpose to which it is being put by TD Asset Management Inc.

TD Mutual Funds and the TD Managed Assets Program portfolios are managed by TD Asset Management Inc., a wholly-owned subsidiary of The Toronto-Dominion Bank and are available through authorized dealers.

© The TD logo and other TD trademarks are the property of The Toronto-Dominion Bank or its subsidiaries.