



## Talking Points

# Commentary

For the month ended December 2025

2025

# Dec

## Fixed Income Outlook

Epoch Investment Partners, Inc. (TD Epoch) emphasizes capital preservation in our active fixed income portfolios while seeking to maintain a yield advantage relative to the benchmark. Positive fiscal and monetary impulses should lead to a slight uptick in U.S. growth (real GDP) in 2026. Artificial Intelligence (AI)-related business investment should remain strong which will benefit economic growth in 2026. Additionally, the labor market will remain weak, and inflation should remain above the Federal Open Market Committee (FOMC)'s target rate. We expect the negative economic impact from tariff policy (higher inflation) to lessen during 2026. If the labor market weakens further, we expect two more cuts to the FOMC's policy rate in 2026 even with inflation running above the its target level (our base case). Based on valuations and fundamentals, we remain constructive toward corporate credit and are comfortable with our strategic credit positioning. We maintain our preference for high-quality investment grade corporates and continue to be positioned with an emphasis on liquidity and quality.

- In the third quarter 2025 U.S. Gross Domestic Product (GDP), at 4.3% seasonally adjusted annual rate (SAAR), surprised to the upside driven by household spending and, to a lesser degree, government spending and net exports. The closure of the federal government will negatively impact the fourth quarter 2025 GDP. This hit to growth will mostly, but not entirely, be reversed in the first quarter 2026, according to the Congressional Budget Office (CBO).
- The FOMC lowered its federal funds target range by 0.25% to 3.50%-3.75% at its December meeting. A majority of the FOMC see downside risks to labor as having increased and upside risks to inflation as having decreased. There were three dissents among voting members. The median year-end 2026 policy rate forecast is 3.4%, which reflects one more 0.25% cut. The FOMC expects above-target inflation, a soft labor market, and above-trend economic growth in 2026.
- Treasury yields were mixed during December – ultra-short maturity yields fell as the FOMC cut its policy rate, while longer-tenor yields increased along with expected economic growth from monetary policy easing and positive fiscal policy. During the past year, the Treasury curve steepened.
- Corporate bond spreads tightened in December and remain near multi-decade lows while attractive yields offer the potential for strong income generation. AI-focused hyperscalers increased their share of investment-grade issuance in 2025, which should continue in 2026. Market volatility continued as investors further digested the transition to more debt financed capex for the hyperscalers.

## Investment Professionals:

**Dennis Woessner**, CFA, CAIA  
Vice President & Director

**Russell Wald**, CFA  
Vice President

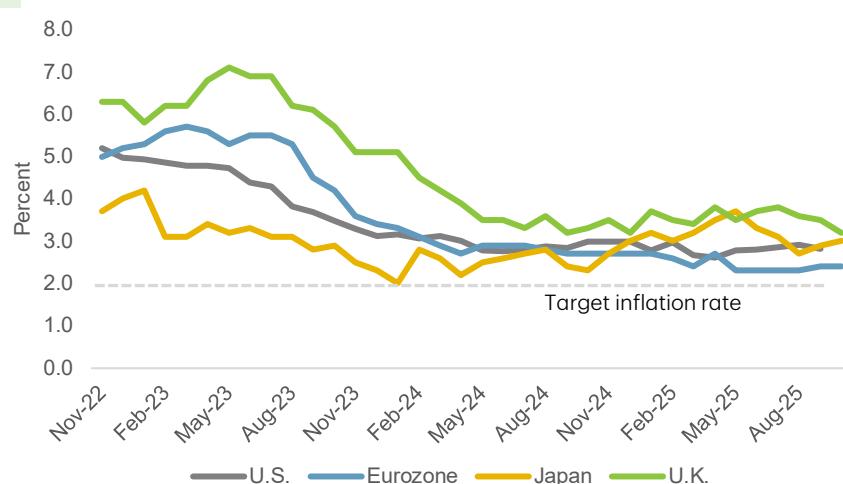
## Macro Update

- In the third quarter 2025 U.S. GDP, at 4.3% SAAR, surprised to the upside driven by resilient household spending and, to a lesser degree, government spending and net exports. Private final domestic demand remains solid. Corporate capital expenditures should be a solid contributor to growth in 2026 due to the One Big Beautiful Bill Act, easing of bank lending standards, and AI investment.
- The negative impact from the federal government shutdown to the U.S. economy in the fourth quarter 2025 will mostly, but not entirely, be reversed in the first quarter 2026, according to the CBO.
- We expect above trend-growth, elevated inflation, and continued weakness in the labor market during 2026.

### Long-Term Views:

- U.S. economic growth is expected to outpace other developed economies, especially in the Eurozone. Short-term interest rates are moving lower in many developed markets as growth and inflation moderate.
- Federal Reserve policy will focus on the labor market if inflation moves toward its target rate and the unemployment rate rises. Nominal and real interest rates may remain elevated as U.S. economic growth remains positive.
- Additional disinflation in developed markets may find some resistance due to higher wages, higher food prices, and geopolitical events such as tariffs and on-going conflicts.

## Inflation



Source: Bloomberg Financial L.P.; December 31, 2025

## U.S. Central Bank Update

- The FOMC lowered its federal funds target range by 0.25% to 3.50%-3.75% at its December meeting. The FOMC reaction function remains more sensitive to labor market weakness than short term upward pressure on inflation; although, the committee seems less aligned in this regard as there were six dissents among committee members, three of which were voting members. Kansas City Fed President Schmid, Chicago Fed President Goolsbee voted not to cut while Governor Miran preferred a 0.50% rate cut.
- The median year-end 2026 policy rate forecast is 3.4%, which reflects one more 0.25% cut. Additionally, the balance of risks still resides with the labor market not inflation.
- The FOMC is willing to look through tariff-impacted inflation they view as one-off if risks to the labor market remain elevated.

Headline inflation in the U.S. and other major economies remain above target levels. U.S. inflation is consolidating above the FOMC's target. We expect inflation to remain elevated over the next twelve months due to tariff and other trade-related policies.

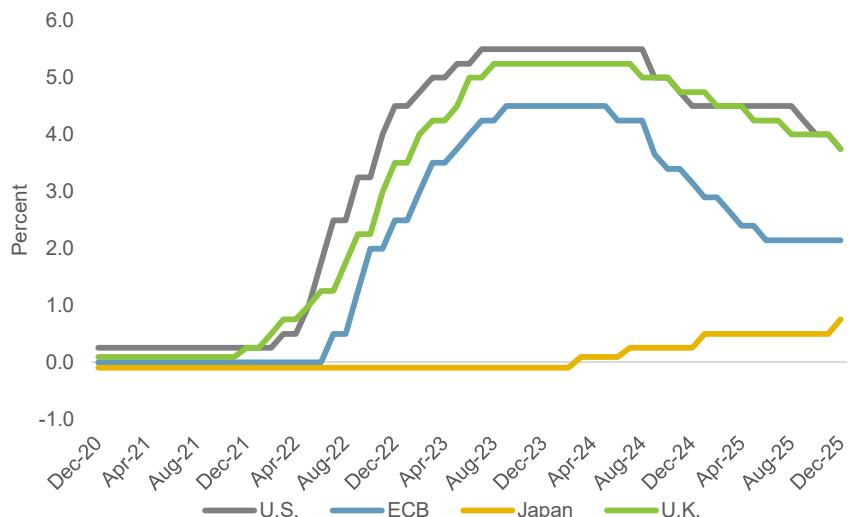
Attaining and remaining at the FOMC's two-percent target rate on a sustained basis may be a challenge.

*Note: The release of U.S. Personal Consumption Expenditures (PCE) inflation data (the FOMC's preferred inflation gauge) for October has been delayed due to the federal government shutdown.*

### Long-Term Views:

- The federal funds effective rate will become less restrictive as the FOMC continues decreasing interest rates. We expect a shallower federal funds rate cut path through 2026; however, this outcome is highly uncertain due to the Trump administration's trade and fiscal policies, and desire to exert more control over FOMC policy contributing to a sustained steeper yield curve.
- The FOMC is committed to its monetary framework and market facilities to support price stability, labor markets, and financial market liquidity.

## Central Bank Policy Rates



Source: Bloomberg Financial L.P.; December 31, 2025

Major Central Bank policies are diverging as global economic conditions deviate around growth and inflation conditions. Central Banks remain data dependent when determining future policy decisions.

The Federal Reserve reduced the federal funds rate by 0.25% in December with two cuts expected by the end of 2026. The trajectory of rate cuts through 2026 will likely be shallower as the U.S. economy continues to expand and the policy rate becomes less restrictive.

The upper bound of FOMC's policy range is now 3.75% (as shown in graph).

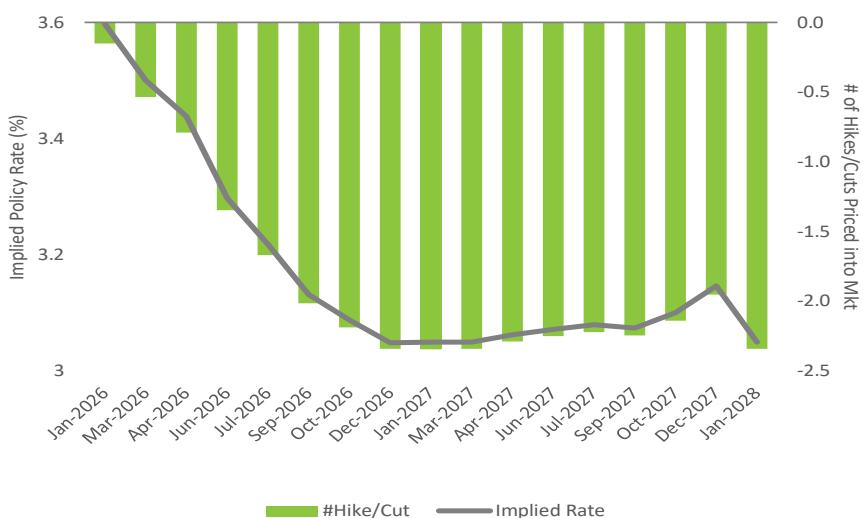
## Cash/Short-term Market Update

- Short-end Treasury yields decreased during the month as the FOMC reduced its policy rate by 0.25% in December. Economic data show a relatively weak labor market, above-target inflation, and a resilient economy.
- Short-term credit spreads were unchanged at 51 basis points (bps), during December. Investor demand remains strong as yields remain attractive and corporate fundamentals remain solid.
- Prime money fund assets increased \$4.2 billion during the 3-month period ending December 2025. Total assets are \$1.22 trillion (up 12.9% year over year (YoY)).

### Current Positioning:

- Short and Short/Intermediate Government/Credit models prefer high-quality investment grade corporate bonds and have a similar duration profile relative to their respective benchmark.

## Number of Hikes/Cuts Priced into Market



Source: Bloomberg Financial L.P.; December 31, 2025

Two rate cuts are expected in 2026. The FOMC's economic projections indicate inflation will remain higher for longer. It expects the PCE price index to reach the 2.0% target by year-end 2028.

The implied policy rate reached a peak rate of 5.3% in 2024. This rate is expected to decline from 3.6% to ~3.0% by year end 2026. The FOMC expects elevated inflation, a soft labor market, trend economic growth, and the continued uncertain economic impact from trade and economic policies.

## 1-3 Year Corporate Option-Adjusted Spread (OAS)



Source: Bloomberg Financial L.P.; December 31, 2025

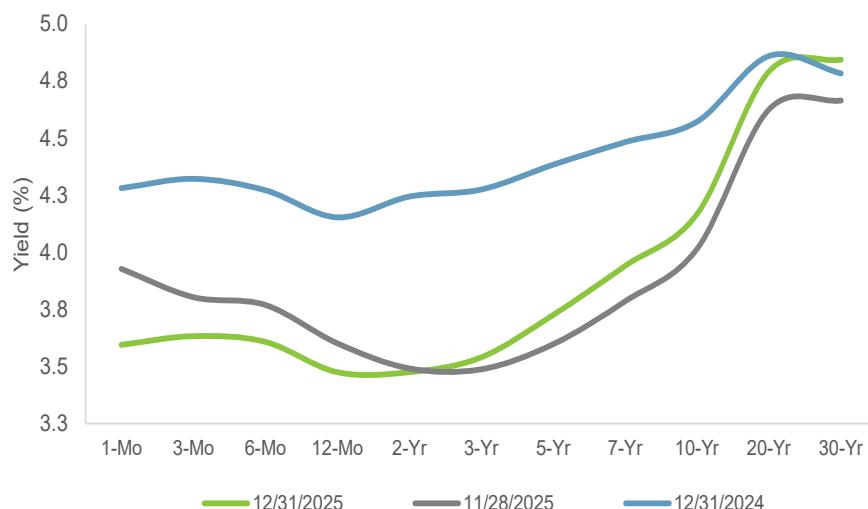
## U.S. Treasury Market Update

- Treasury yields were mixed during the month – ultra-short maturity yields fell as the FOMC cut its policy rate by 0.25%. Longer-tenor yields increased along with expected economic growth from monetary policy easing and positive fiscal policy.
- The impact of the Trump administration's trade, tax, immigration, and regulatory policies on expected real economic growth, inflation, and fiscal deficits remains uncertain.

At 51 bps, the index OAS is unchanged from last month end. Year-over-year, the index OAS is 1 bp tighter. Factors which may benefit spreads are trend GDP growth outlook, solid fundamentals, and an easing FOMC policy framework. Uncertainty pertaining to trade and fiscal policies and increasing expectations for debt-financed capex from hyperscalers are negatively affecting corporate bond spreads.

Corporate fundamentals are expected to slightly weaken from a strong base as economic growth slows to trend during the latter part of 2026 and into 2027. Financial conditions are not overly restrictive as the FOMC continues easing its policy rate and spreads remain near multiyear tight levels.

## Treasury Yields



Source: Bloomberg Financial L.P.; December 31, 2025

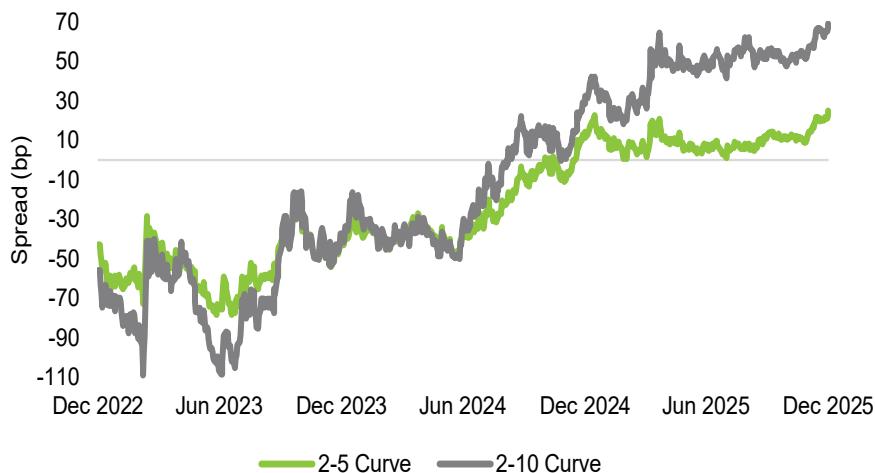
### Current Positioning:

- Government models have similar duration profiles relative to their respective benchmark. We expect interest rates to be more volatile during this period of uncertain fiscal- and trade-related policies.

Treasury yields mostly increased during December. The spread between 2- and 30-year maturities increased 20 bps, to 137 bps. The yield gap between the 3-month T-Bill and 10-year Treasury at 54 bps, is 32 bps steeper since last month end.

We expect yields to be range-bound at current levels as labor demand weakens while economic growth continues. Stimulative fiscal policy and less restrictive monetary policy will contribute to growth in 2026 which may push longer-tenor yields higher. The potential for tariffs to raise fiscal revenues and dampen consumption could constrain long term yields. We expect interest rates to be more volatile during this period of uncertain fiscal- and trade-related policies.

## Treasury Curves



Yields in the belly of the Treasury curve increased during the month. The FOMC cut its policy rate by 0.25% in December due to labor market weakness, while the economy remains resilient and inflation remains above target.

The 2s10s curve increased 17 bps, to 69 bps. The 2s5s curve, at 25 bps, increased 15 bp.

Greater fiscal deficits may pressure term premiums higher over the medium and longer term.

## Investment Grade Credit Market Update

- Corporate bond spreads decreased 3 bps, to 78 bps, and the credit curve flattened relative to last month. Investor demand remained relatively solid into year end during a record supply year. Corporate bond yields moved higher during the month.
- Investors are focused on sustainability of and financing expectations for AI-related investment as it relates to economic growth and corporate earnings.
- Looking forward, corporate fundamentals should remain solid but will continue to weaken from very strong levels. The U.S. economy has effectively weathered the trade-policy uncertainty so far.

### Current Positioning:

- Government/Credit models remain overweight the corporate sector, mostly in the banking industry, and have similar duration profiles relative to their respective benchmark.

## Corporate Spread & Issuance



For the month, corporate bond issuance was \$43.3 billion, a 3% increase from the same period last year. The cumulative 12-month change is 12%. The spread on the corporate bond index, at 78 bps, is 3 bps tighter for the month.

Year to Date (YTD) corporate bond issuance is \$1.73 trillion, exceeding this year's forecast of \$1.55 trillion. Expected issuance for 2026 is ~\$1.85 trillion with the YoY increase fueled by AI-related investment from hyperscalers such as Google, Amazon, and Oracle while bank issuance is expected to decline.

# Corporate Spreads by Maturity



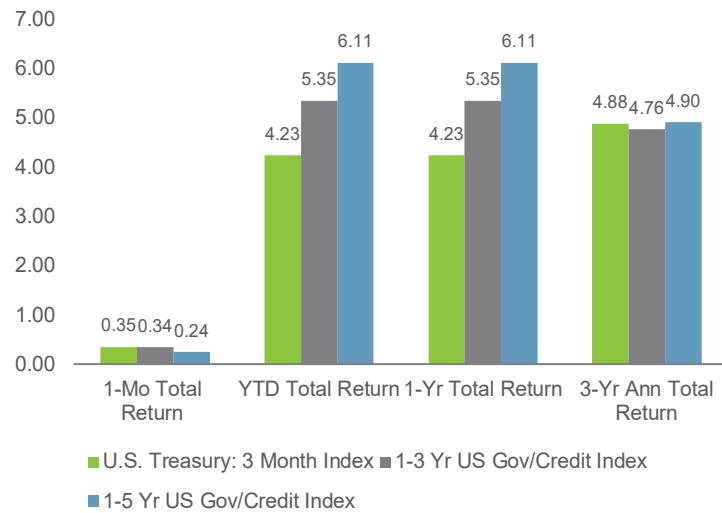
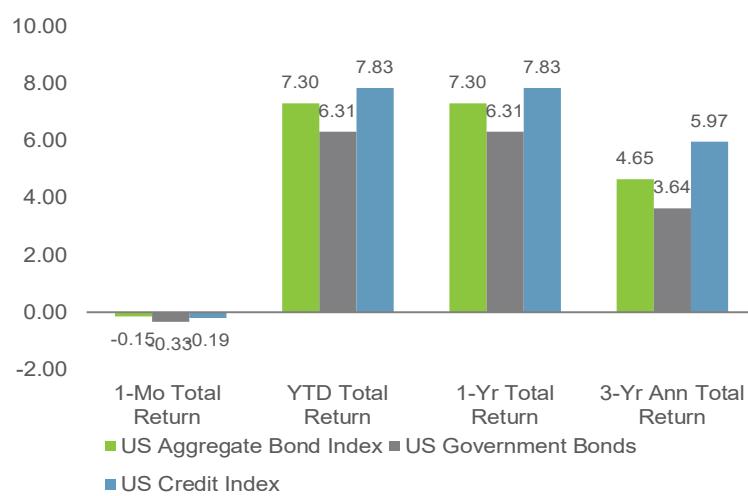
Source: Bloomberg Financial L.P.; December 31, 2025

The Bloomberg U.S. Corporate Bond Index spread is 2 bps tighter during the past 12-month period. There has been strong investor demand during a period of relatively higher yields and record issuance. Factors which may benefit future spreads are trend GDP growth outlook, solid fundamentals, and an easing FOMC policy framework. Investor focus on large scale debt issuance from hyperscalers and sustainability and magnitude of AI related investment were headwinds for credit spreads.

The corporate bond index OAS is 3 bps tighter since last month end, currently 78 bps. The 1-10-year corporate bond index OAS, at 70 bps, is 3 bps tighter for the month.

## Charts & Tables

### Fixed Income Indices



### Economic Figures & Short-term Rates

Description	Current	3-mo Ago	1-yr Ago	Next Release
Fed Funds (%)	3.75	4.00	4.50	1/28/2026
CPI (YoY %)	2.70	2.90	2.70	1/13/2026
PCE (YoY %)	2.80	2.60	2.30	1/5/2026
Unemployment Rate (%)	4.60	4.30	4.20	1/9/2026
GDP (YoY %)	2.30	2.10	2.80	1/22/2026
Retail Sales (YoY %)	3.50	4.10	3.20	1/14/2026
Leading Indicators (YoY %)	-3.30	-3.90	-4.30	1/21/2026
Housing Starts (000s)	1,307	1,282	1,391	1/9/2026

Description	Current	3-mo Ago	1-yr Ago
Fed Funds (%)	3.75	4.25	4.50
3-Mo U.S. Treasury Bill	3.63	3.94	4.32
6-Mo U.S. Treasury Bill	3.61	3.84	4.27
USD O/N Govt. Repo	3.89	4.23	4.50
U.S. 30-Day Comm Paper*	3.66	4.07	4.30
U.S. 90-Day Comm Paper*	3.76	4.03	4.39

\*A1/P1/F1 rated U.S. Commercial Paper

Source for all charts and tables: Bloomberg Financial L.P.; December 31, 2025

## Charts & Tables - continued

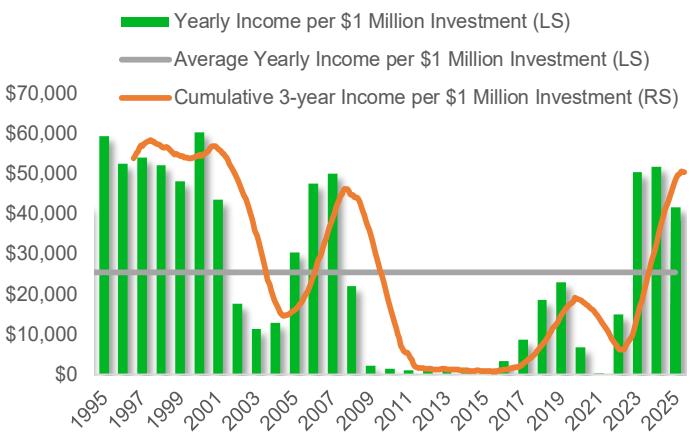
### Treasury Market



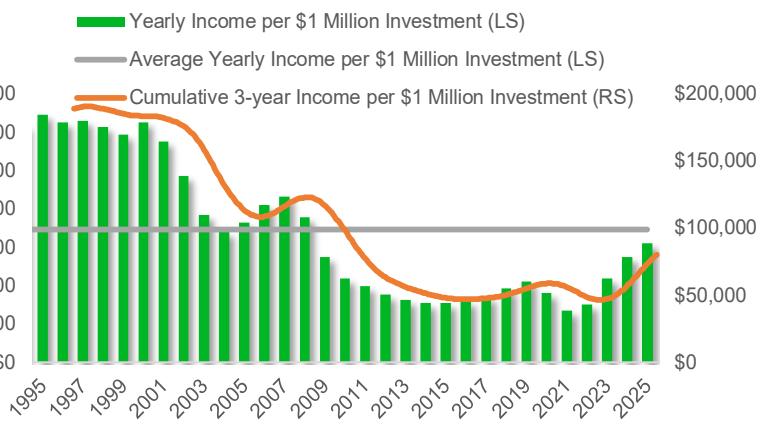
Maturity	Yield Curve (%)	Change in Yield Curve (basis points)		
		1-Mo Ago	3-Mo Ago	1-Yr Ago
1-Mo	3.60	-33	-51	-69
3-Mo	3.63	-17	-31	-69
6-Mo	3.61	-16	-23	-66
12-Mo	3.48	-13	-15	-68
2-Yr	3.48	-2	-13	-77
3-Yr	3.54	5	-8	-73
5-Yr	3.73	13	-2	-66
7-Yr	3.94	16	1	-54
10-Yr	4.17	15	2	-40
20-Yr	4.79	17	9	-7
30-Yr	4.85	18	11	6

### Investment Income per \$1 Million Invested in Index (No reinvestment of income)

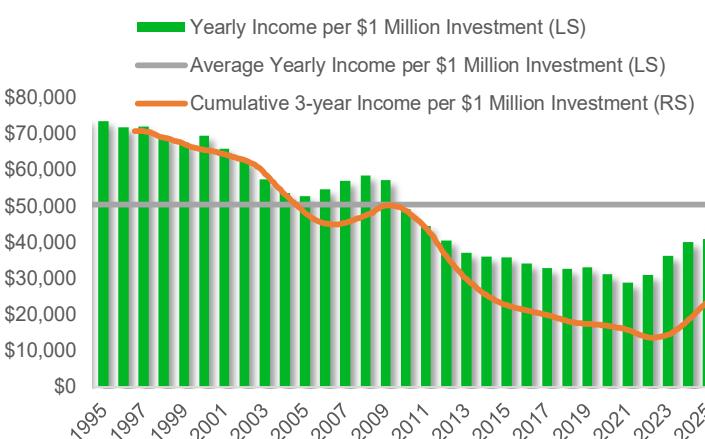
#### Bloomberg U.S. 3 Month Treasury Bill Index



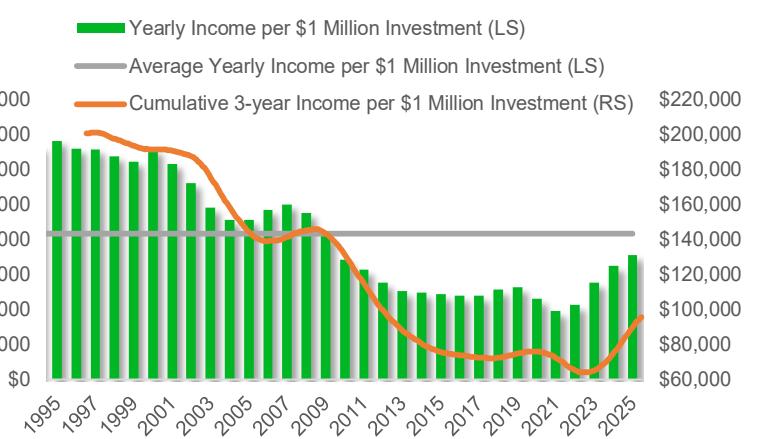
#### Bloomberg U.S. Treasury 1-5 Year Index



#### Bloomberg U.S. Corporate Bond 1-5 Year Index



#### Bloomberg U.S. Intermediate Government/Credit Index





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### Additional Disclosure

On September 10, 2025, the Chicago Mercantile Exchange ("CME") made findings involving The Toronto-Dominion Bank ("TD") related to a transaction effected on the Chicago Board of Trade ("CBOT") in June 2023. The CME determined that the transaction was executed in order to transfer a futures position between accounts with common beneficial ownership in violation of CBOT Rules 534 and 538.C. Without admitting or denying any violations or factual findings, TD consented to the entry of findings by the CME and paid a penalty of \$25,000. None of the conduct regarding this matter involved Epoch Investment Partners, Inc. or its employees. A copy of the CME findings can be found here: <https://www.cmegroup.com/content/dam/cmegroup/notices/disciplinary/2025/09/cbot-24-1744-bc-toronto-dominion-bank-nda-posting.pdf>

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