



Talking Points

Commentary

For the month ended February 2026

Feb²⁰²⁶

Fixed Income Outlook

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 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.

Focal Points

- The initial fourth quarter 2025 U.S. Gross Domestic Product (GDP) release came in at 1.4% SAAR. The prior quarter's growth rate was 4.4% Seasonally Adjusted Annual Rate (SAAR). Growth was driven by household spending. The closure of the federal government shaved nearly 1.2 percentage points (ppts) from fourth quarter growth. Most of this loss should reverse in first quarter 2026.
- The FOMC's federal funds target range is 3.50%-3.75%. The next policy rate cut is expected in the second half of 2026, possibly at July's meeting. January's statement reflected a slightly more optimistic view on economic growth and the labor market relative to December's statement. The median year-end 2026 policy rate forecast is 3.4%.
- Treasury yields decreased in February, with the belly of the curve outperforming short and long rates. This is consistent with a financial market pricing in more policy rate cuts at the FOMC, increasing productivity, and anchored inflation expectations.
- Corporate bond spreads widened in February. Corporate bond yields offer the potential for strong income generation. AI-focused hyperscalers increased their share of investment-grade issuance in 2025, which continues in 2026. Market volatility has remained and is affecting several sectors as investor focus shifts to the creative destruction potential of AI innovation and implementation.

Investment Professionals:

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Vice President & Director

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Vice President

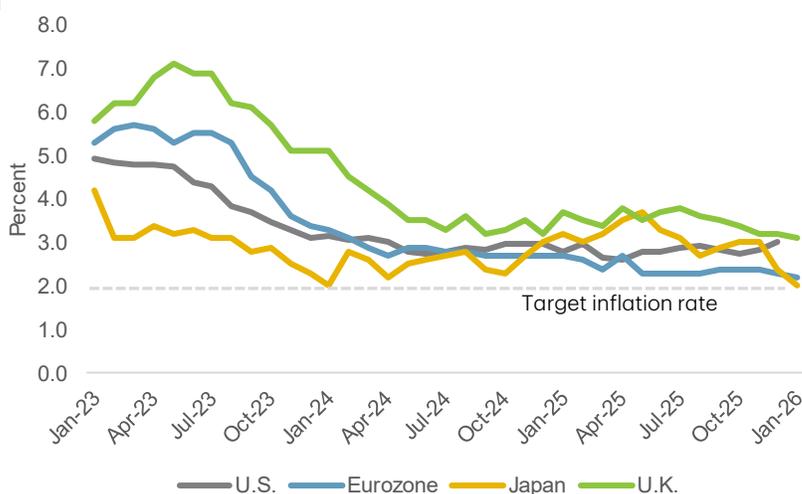
Macro Update

- The initial fourth quarter 2025 U.S. GDP came in at 1.4% SAAR. Growth was driven by household spending. The closure of the federal government shaved nearly 1.2 ppts from fourth quarter growth. Most of this damage should reverse in first quarter 2026. Private final domestic demand remained solid in fourth quarter.
- 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.
- We expect above trend-growth growth, elevated inflation, and continued weakness in the labor market during 2026.
- We are assessing the U.S. and Israeli military action against Iran and its impact to energy market pricing, interest rates, FOMC policy, and credit spreads.

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, higher and geopolitical events such as tariffs and on-going conflicts.

Inflation



Source: Bloomberg Financial L.P.; February 28, 2026

Headline inflation in the U.S. and other major economies remain above target levels. US inflation is consolidating above the FOMC's target. We expect inflation to remain elevated over the next twelve months due 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) price index inflation data (the FOMC's preferred inflation gauge) for January has been delayed due to the federal government shutdown.

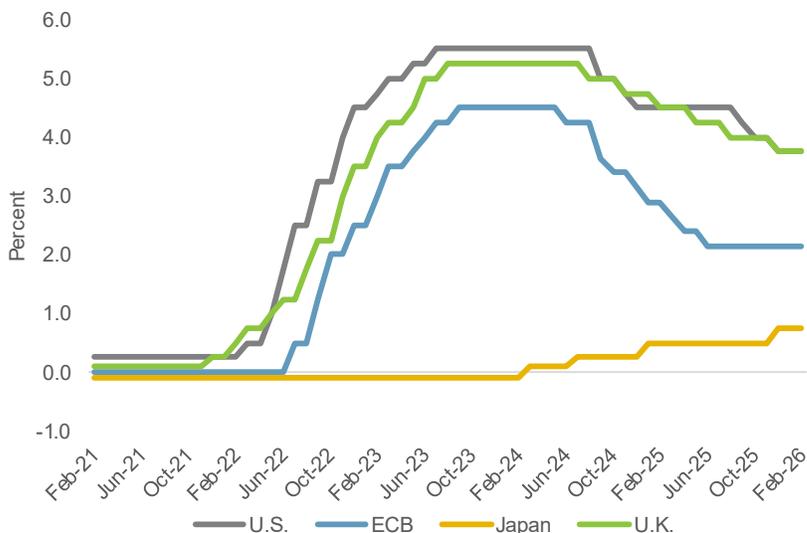
U.S. Central Bank Update

- The current federal funds target range is 3.50%-3.75%. January's policy statement expressed a more optimistic view on economic growth and the labor market relative to December's statement. The median year-end 2026 policy rate forecast is 3.4%, which reflects one more 0.25% cut.
- Chair Powell is more upbeat about the strength of the US economy, and the labor market (driven by financial conditions and fiscal policy), relative to December's FOMC meeting. He expects tariff-related inflation to top out in mid-2026.
- The easing cycle seems to be on pause until second half of 2026 when Kevin Warsh (the presumptive new Chair) leads the FOMC.

Long-Term Views:

- The federal funds effective rate is 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.; February 28, 2026

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 held the federal funds steady in January. 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 3.75% (as shown in graph).

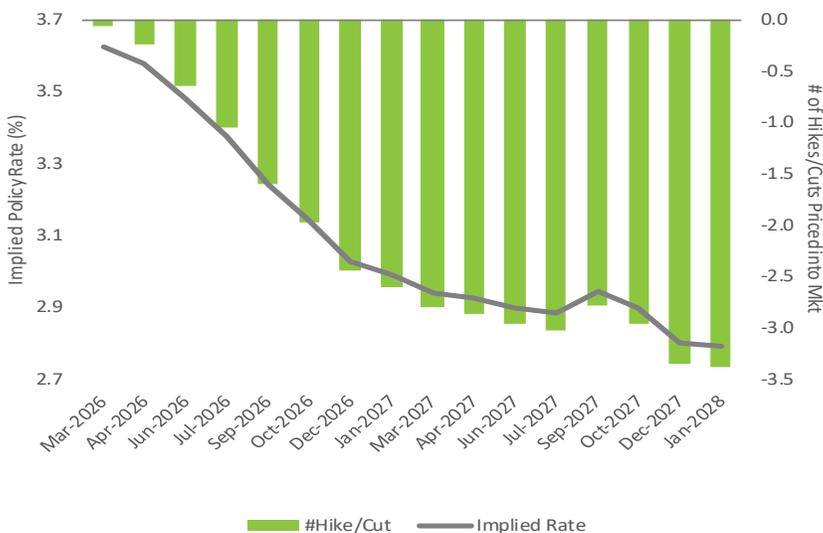
Cash/Short-term Market Update

- Treasury bill yields were little changed on the month with the expectation that there will be an extended pause in the FOMC's rate cutting cycle. Economic data show a slow-growth labor market, above-target inflation, and a resilient economy.
- Short-term credit spreads widened 7 basis points (bps), to 51 bps, as yields in the belly of the curve fell 15 to 31 bps during February. Investor demand is keeping pace with record year to date (YTD) corporate bond issuance. Yields remain attractive and corporate fundamentals remain solid.
- Prime money fund assets increased \$25.8 billion during the 3-month period ending February 2026. Total assets are \$1.24 trillion (up 10.9% 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

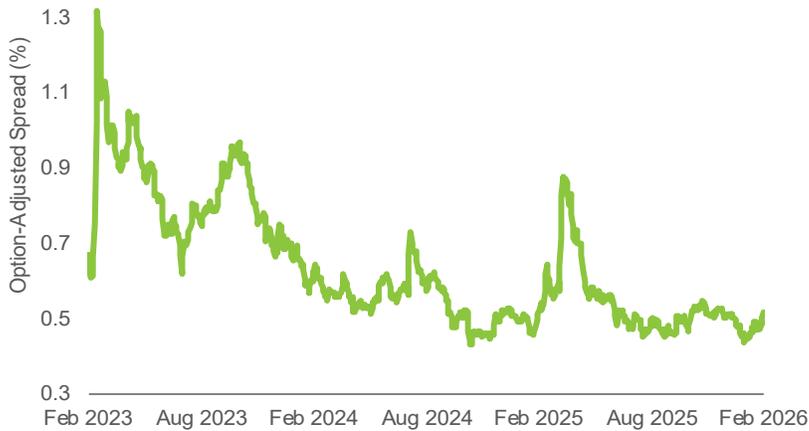


Source: Bloomberg Financial L.P.; February 28, 2026

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.; February 28, 2026

At 51 bps, the index OAS widened 7 bps 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, increasing expectations for debt-financed capex from hyperscalers, and uncertainty around the creative destruction potential from AI implementation are contributing to spread volatility.

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.

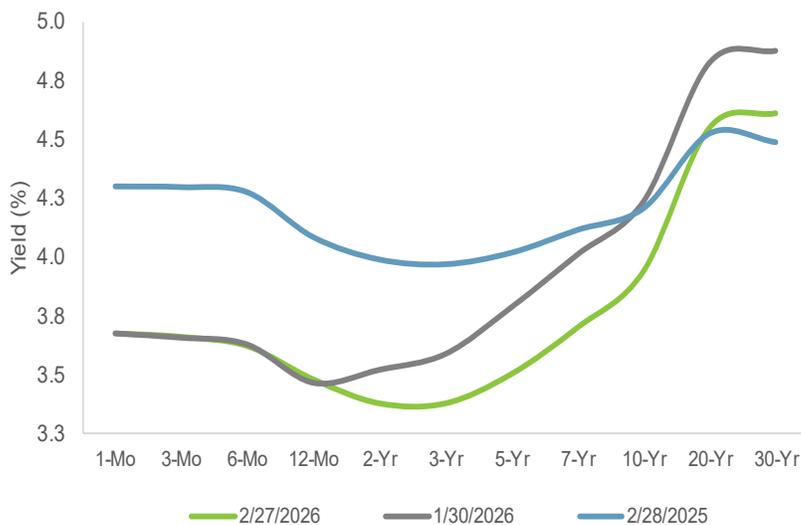
U.S. Treasury Market Update

- Treasury yields decreased in February, with the belly of the curve outperforming short and long rates. This is consistent with a financial market more constructive on economic growth, increasing productivity, and anchored inflation expectations.
- The impact of the Trump administration's trade, tax, immigration, and regulatory policies on expected real economic growth, inflation, and fiscal deficits remains uncertain.

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

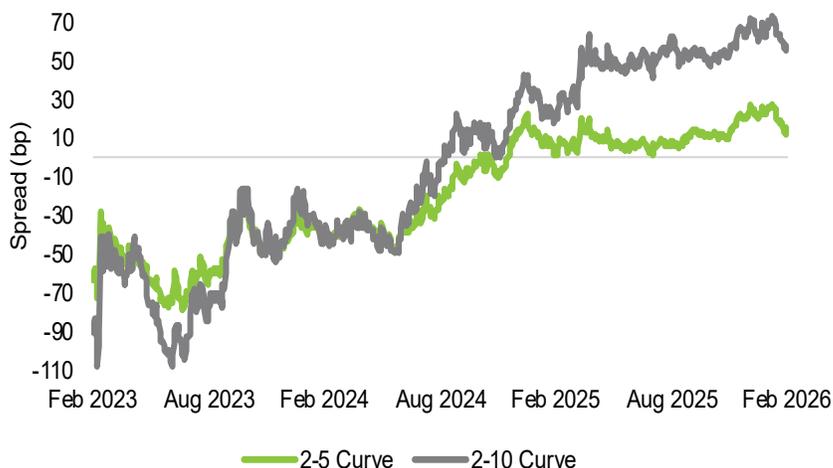


Source: Bloomberg Financial L.P.; February 28, 2026

Treasury yields decreased during February. The yield spread between 2- and 30-year maturities decreased 11 bps, to 124 bps. The yield gap between the 3-month T-Bill and 10-year Treasury at 28 bps, is 30 bps flatter since last month end.

We expect yields to be range-bound at current levels as labor demand remains weak while economic growth remains solid. 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



Source: Bloomberg Financial L.P.; February 28, 2026

Yields in the belly of the Treasury curve decreased during the month. The FOMC left its policy rate unchanged in January as the FOMC's policy statement was more upbeat about the U.S. economy than in December.

The 2s10s curve decreased 15 bps, to 56 bps. The 2s5s curve, at 13 bps, decreased 14 bp.

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

Investment Grade Credit Market Update

- Corporate bond spreads increased 11 bps, to 84 bps, and the credit curve steepened relative to last month. Investor demand for investment-grade corporate debt was solid during record issuance first two months. The yield on the Corporate Index moved lower during the month.
- AI remains an area of focus for investors. Financing expectations and profitability for AI-related investment as it relates to economic growth and corporate earnings continues to be topical. Potential sector specific impacts of AI driven creative destruction has also increased volatility.
- 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

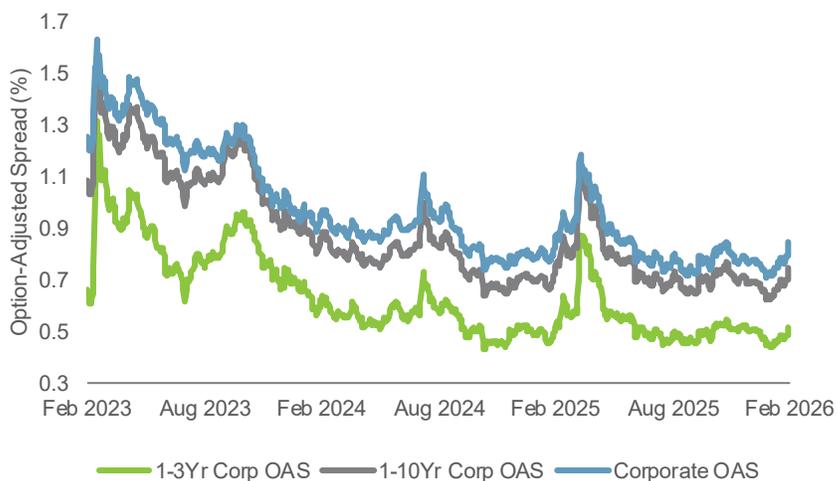


Source: Bloomberg Financial L.P.; February 28, 2026

For the month, corporate bond issuance was \$199 billion, 20% higher from the same period last year. The cumulative 12-month change is 17.5%. The spread on the corporate bond index, at 84 bps, is 11 bps wider for the month.

YTD corporate bond issuance is \$423 billion – a record for the first two months of a year. Expected issuance for 2026 is ~\$1.85 trillion with the YoY increase fueled by AI-related investment from hyperscalers such as Google, Amazon, Meta, Microsoft and Oracle while bank issuance is expected to decline.

Corporate Spreads by Maturity



Source: Bloomberg Financial L.P.; February 28, 2026

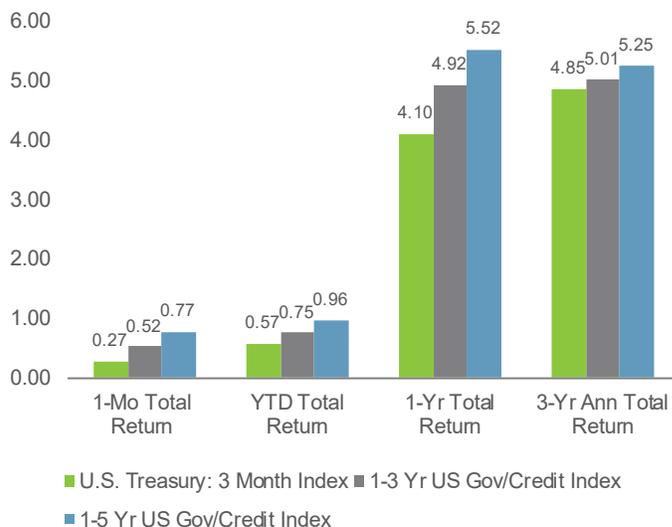
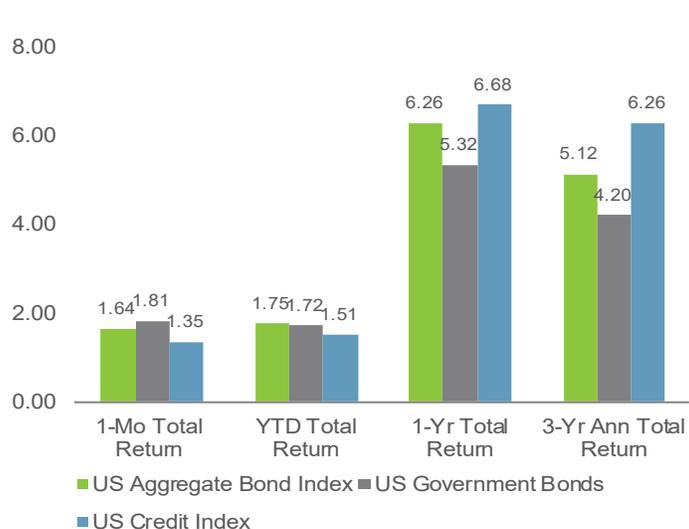
The Bloomberg U.S. Corporate Bond Index spread is 2 bps tighter during the past 12-month period. Investor demand remained strong during a period of relatively higher yields and record issuance. Factors which may benefit future spreads are trend GDP growth outlook, solid fundamentals, and an easing FOMC policy framework.

Investor focus on large scale debt issuance from hyperscalers and sustainability and magnitude of AI related investment were headwinds for credit spreads. Uncertainty around areas impacted by creative destruction from AI technology also impacted spreads.

The corporate bond index OAS is 11 bps wider since last month end, currently 84 bps. The 1-10-year corporate bond index OAS, at 75 bps, is 10 bps wider while the 1-3-year corporate bond index is 7 bps, now 51 bps, 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	3/18/2026
CPI (YoY %)	2.40	N/A	3.00	3/11/2026
PCE (YoY %)	2.90	2.80	2.70	3/13/2026
Unemployment Rate (%)	4.30	N/A	4.00	3/6/2026
GDP (YoY %)	2.20	2.30	2.40	3/13/2026
Retail Sales (YoY %)	2.40	4.10	4.60	3/6/2026
Leading Indicators (YoY %)	-3.90	-3.30	-3.00	3/17/2026
Housing Starts (000s)	1,404	1,328	1,514	3/12/2026

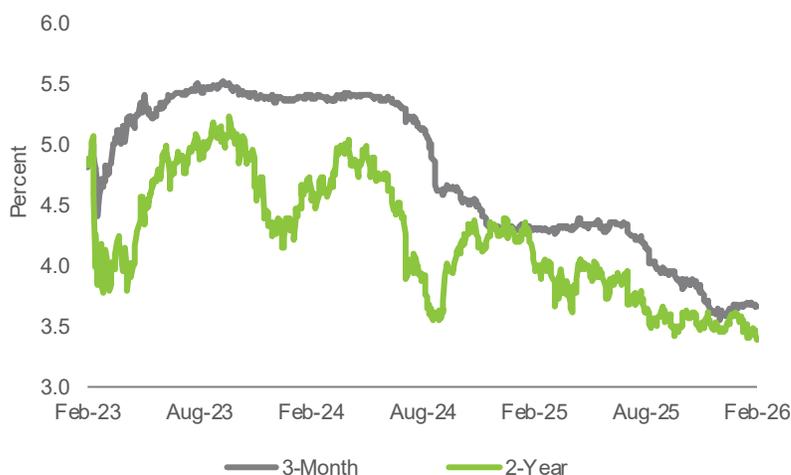
Description	Current	3-mo Ago	1-yr Ago
Fed Funds (%)	3.75	4.00	4.50
3-Mo U.S. Treasury Bill	3.66	3.80	4.30
6-Mo U.S. Treasury Bill	3.62	3.77	4.28
USD O/N Govt. Repo	3.71	4.13	4.41
U.S. 30-Day Comm Paper*	3.66	3.86	4.32
U.S. 90-Day Comm Paper*	3.70	3.90	4.34

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

Source for all charts and tables: Bloomberg Financial L.P.; February 28, 2026

Charts & Tables - continued

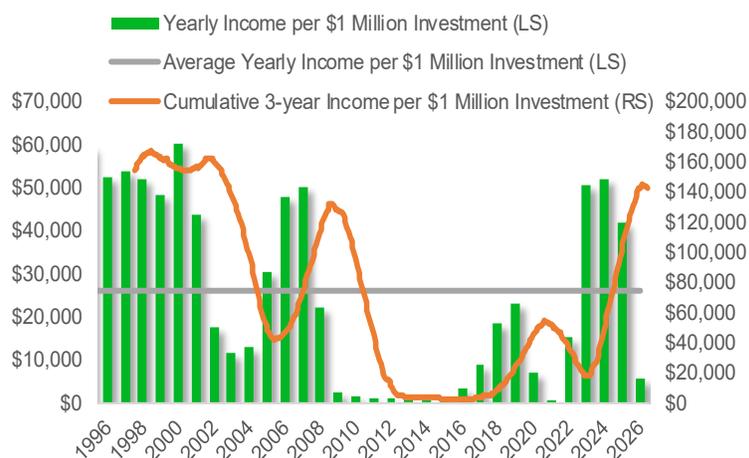
Treasury Market



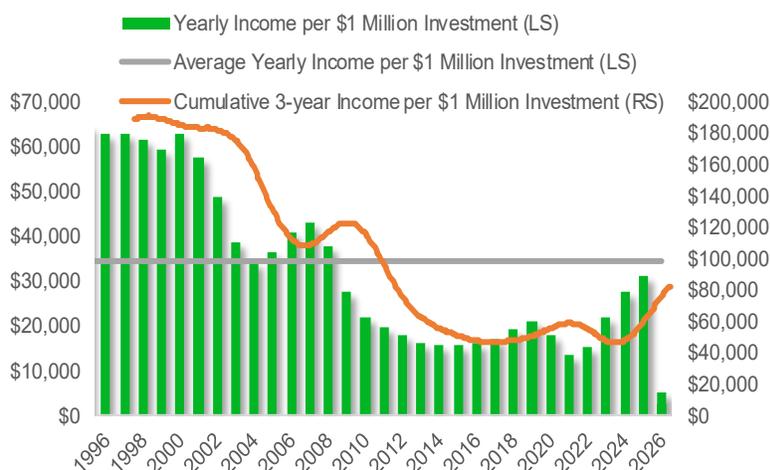
Maturity	Yield Curve (%)	Change in Yield Curve (basis points)		
		1-Mo Ago	3-Mo Ago	1-Yr Ago
1-Mo	3.68	0	-25	-63
3-Mo	3.66	0	-14	-64
6-Mo	3.62	-1	-15	-66
12-Mo	3.48	1	-12	-61
2-Yr	3.38	-15	-11	-61
3-Yr	3.38	-21	-11	-59
5-Yr	3.50	-29	-9	-52
7-Yr	3.70	-31	-8	-42
10-Yr	3.94	-30	-7	-27
20-Yr	4.55	-27	-7	2
30-Yr	4.61	-26	-5	12

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

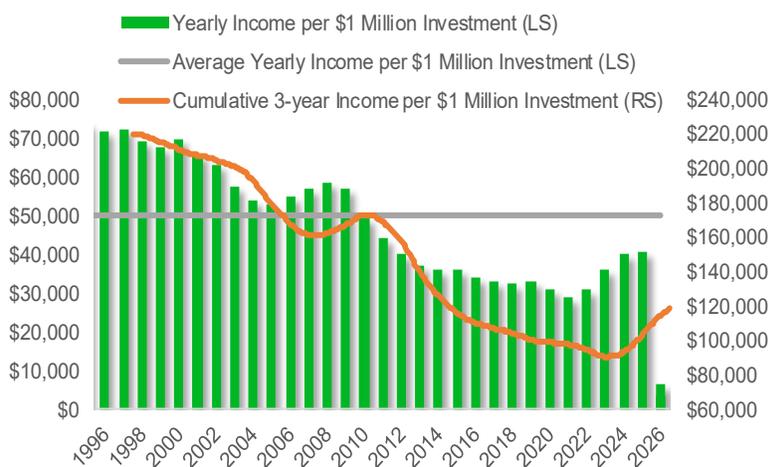
Bloomberg U.S. 3 Month Treasury Bill Index



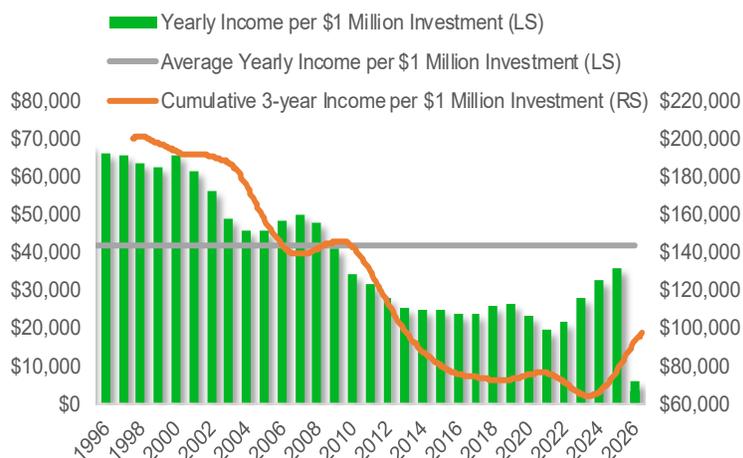
Bloomberg U.S. Treasury 1-5 Year Index



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



Bloomberg U.S. Intermediate Government/Credit Index



Talking Points



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