



Talking Points

# Commentary

For the month ended January 2026

**Jan** <sup>2026</sup>

## 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

- Third quarter 2025 U.S. Gross Domestic Product (GDP) increased a revised 4.4% seasonally adjusted annual rate (SAAR). Growth was 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 first quarter 2026, according to the Congressional Budget Office.
- As expected, the FOMC maintained its federal funds target range of 3.50%-3.75% at its January meeting. There were two dissents among voting members for a 25 basis points (bps) reduction. The policy 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 increased in January, with the belly of the curve underperforming short and long rates. This is consistent with a financial market more constructive on economic growth, increasing productivity, and anchored inflation expectations.
- Corporate bond spreads tightened in January and are at 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 has remained as investors further digest the transition to more debt financed capex for the hyperscalers.

## Investment Professionals:

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

**Russell Wald**, CFA  
Vice President

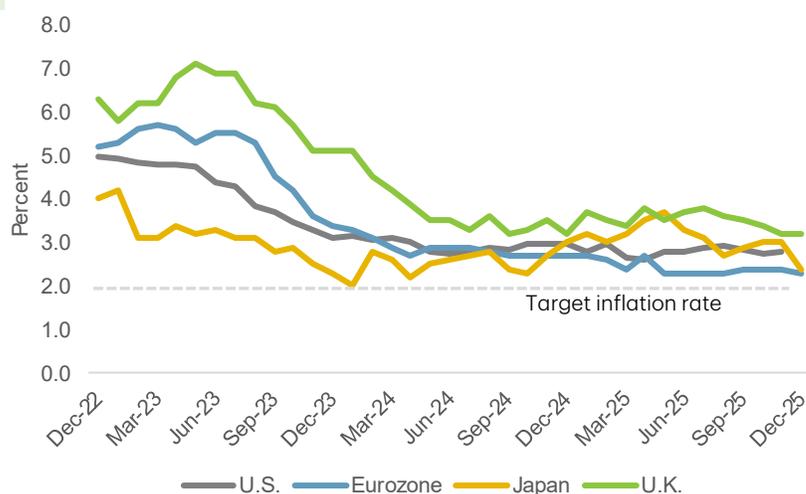
## Macro Update

- Third Quarter 2025 U.S. GDP increased a revised 4.4% SAAR. Growth was driven by 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 fourth quarter 2025 will mostly, but not entirely, be reversed in first quarter 2026, according to the Congressional Budget Office (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.; January 31, 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) inflation data (the FOMC's preferred inflation gauge) for December has been delayed due to the federal government shutdown.*

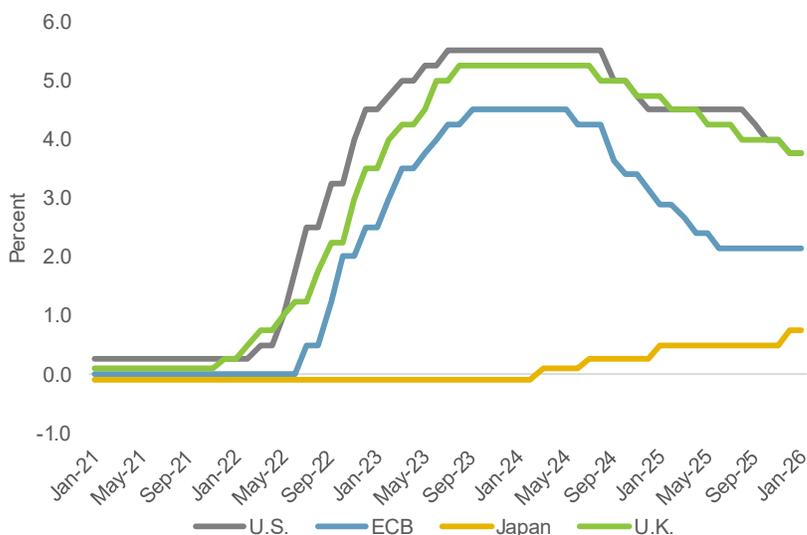
## U.S. Central Bank Update

- The FOMC maintained its federal funds target range of 3.50%-3.75% at its January meeting. However, the policy statement expressed a more optimistic view on economic growth and the labor market. The median year-end 2026 policy rate forecast is 3.4%, which reflects one more 0.25% cut.
- At the press conference, Chair Powell sounded more upbeat about the strength of the US economy, and the labor market (driven by financial conditions and fiscal policy), relative to the prior meeting. He expects tariff-related inflation to top out in mid-2026.
- The easing cycle seems to be firmly on pause until June, at minimum, 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.; January 31, 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 now 3.75% (as shown in graph).

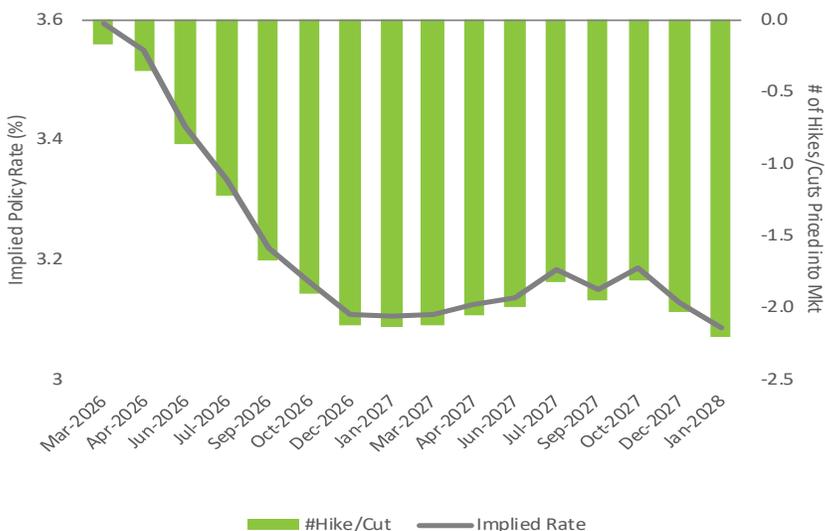
## Cash/Short-term Market Update

- Short-end Treasury yields increased during the month as the FOMC's policy statement was more upbeat about the U.S. economy than in December. Economic data show a relatively weak labor market, above-target inflation, and a resilient economy.
- Short-term credit spreads tightened 6 bps, to 45 bps, during January. Investor demand remains strong as yields remain attractive and corporate fundamentals remain solid.
- Prime money fund assets increased \$27.4 billion during the 3-month period ending December 2025. Total assets are \$1.24 trillion (up 12.4% 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.; January 31, 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 ~3.1% 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.; January 31, 2026

At 46 bps, the index OAS narrowed 6 bps from last month end. Year-over-year, the index OAS is 4 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 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.

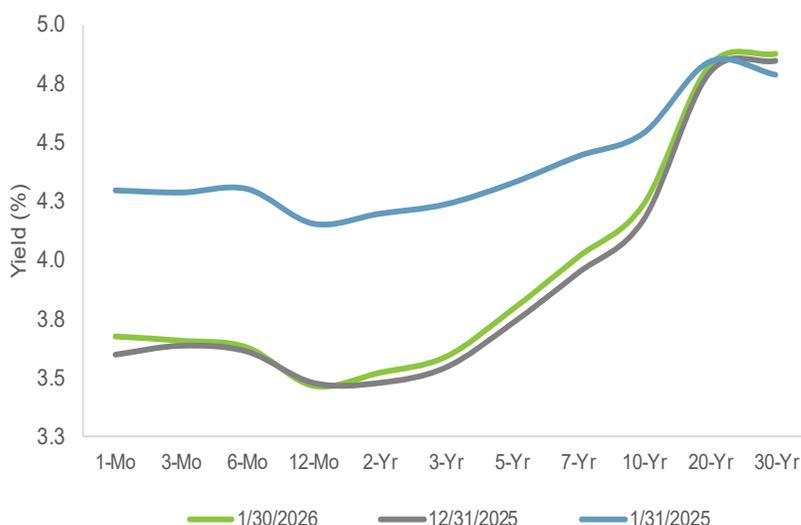
## U.S. Treasury Market Update

- Treasury yields increased in January, with the belly of the curve underperforming 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

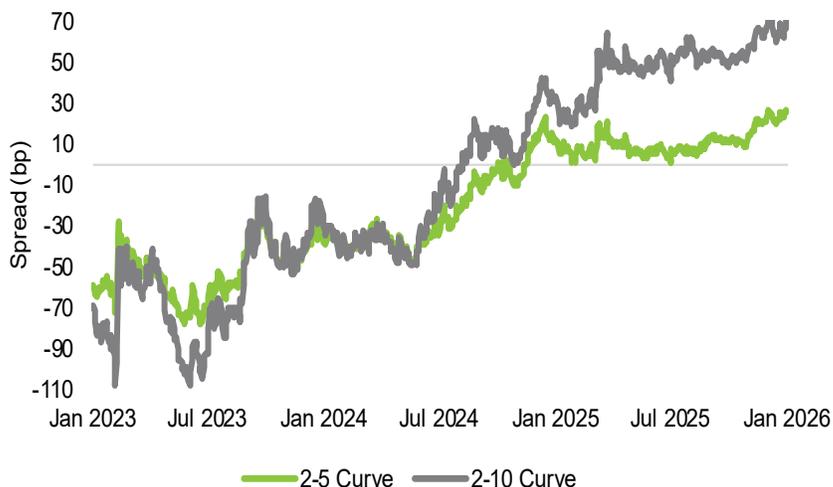


Source: Bloomberg Financial L.P.; January 31, 2026

Treasury yields increased during January. The yield spread between 2- and 30-year maturities decreased 2 bps, to 135 bps. The yield gap between the 3-month T-Bill and 10-year Treasury at 58 bps, is 4 bps steeper since last month end.

We expect yields to be range-bound at current levels as labor demand remains weak 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



Source: Bloomberg Financial L.P.; January 31, 2026

Yields in the belly of the Treasury curve increased 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 increased 2 bps, to 71 bps. The 2s5s curve, at 27 bps, increased 1 bp.

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

## Investment Grade Credit Market Update

- Corporate bond spreads decreased 5 bps, to 73 bps, and the credit curve steepened relative to last month. Investor demand was solid during a record supply month for January. The yield on the Corporate Index 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

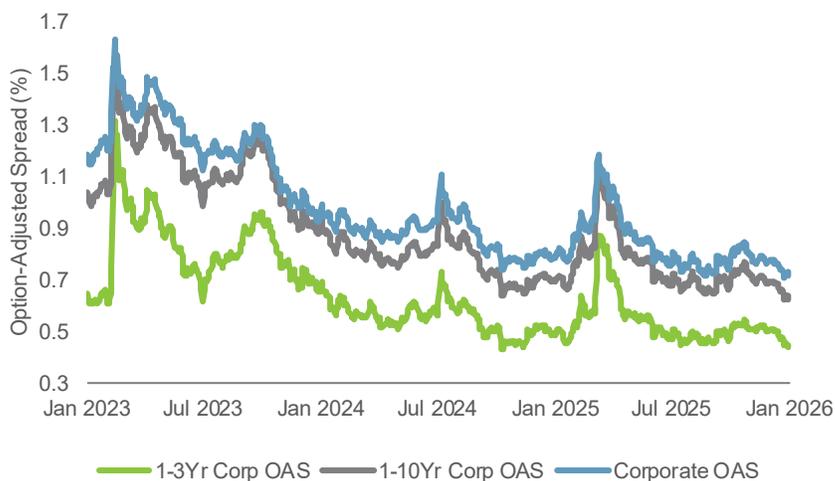


Source: Bloomberg Financial L.P.; January 31, 2026

For the month, corporate bond issuance was \$224 billion, 11% higher from the same period last year. The cumulative 12-month change is 13%. The spread on the corporate bond index, at 73 bps, is 5 bps tighter for the month.

Year to date (YTD) corporate bond issuance is \$224 billion. 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



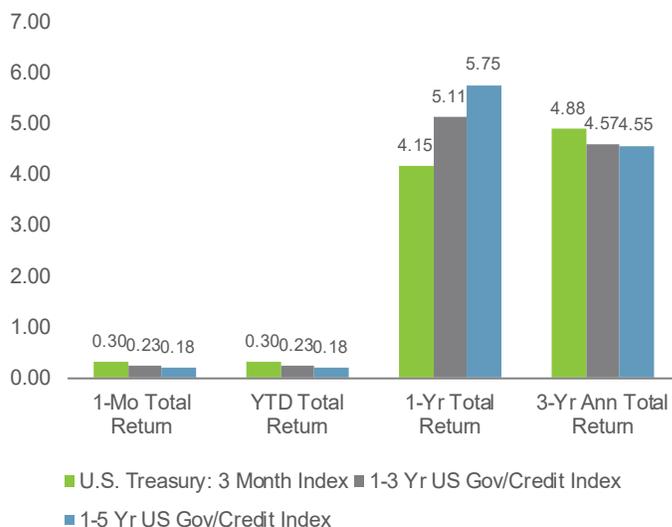
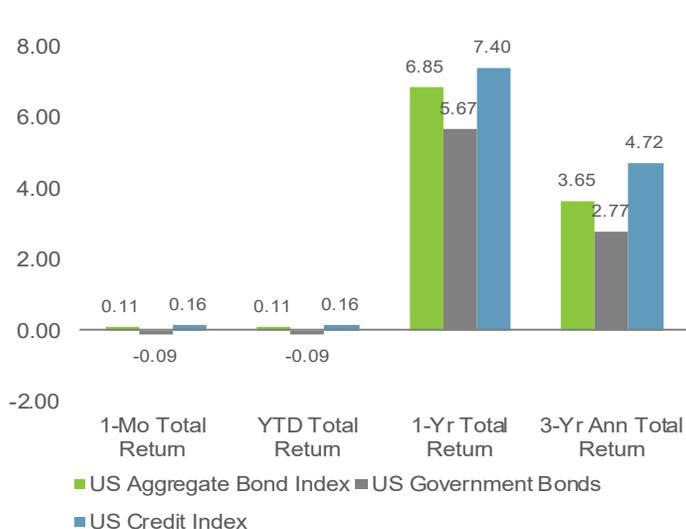
Source: Bloomberg Financial L.P.; January 31, 2026

The Bloomberg U.S. Corporate Bond Index spread is 6 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 5 bps tighter since last month end, currently 73 bps. The 1-10-year corporate bond index OAS, at 64 bps, is 5 bps tighter while the 1-3-year corporate bond index is 6 bps, now 45 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 %)	2.70	3.00	2.90	2/11/2026
PCE (YoY %)	2.80	2.70	2.60	2/20/2026
Unemployment Rate (%)	4.40	4.40	4.10	2/6/2026
GDP (YoY %)	2.30	2.10	2.40	2/20/2026
Retail Sales (YoY %)	3.30	5.00	3.90	2/10/2026
Leading Indicators (YoY %)	-3.70	-3.50	-3.00	2/18/2026
Housing Starts (000s)	1,246	1,420	1,352	2/18/2026

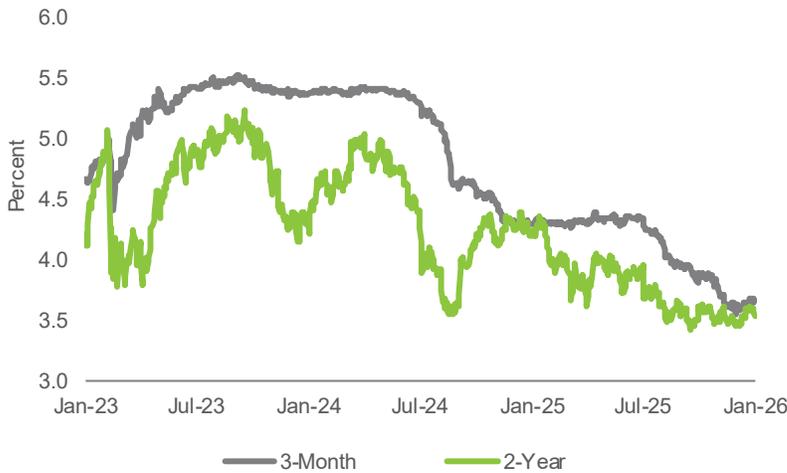
Description	Current	3-mo Ago	1-yr Ago
Fed Funds (%)	3.75	4.00	4.50
3-Mo U.S. Treasury Bill	3.66	3.82	4.29
6-Mo U.S. Treasury Bill	3.63	3.82	4.30
USD O/N Govt. Repo	3.72	4.21	4.43
U.S. 30-Day Comm Paper*	3.62	3.84	4.30
U.S. 90-Day Comm Paper*	3.70	3.95	4.35

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

Source for all charts and tables: Bloomberg Financial L.P.; January 31, 2026

# Charts & Tables - continued

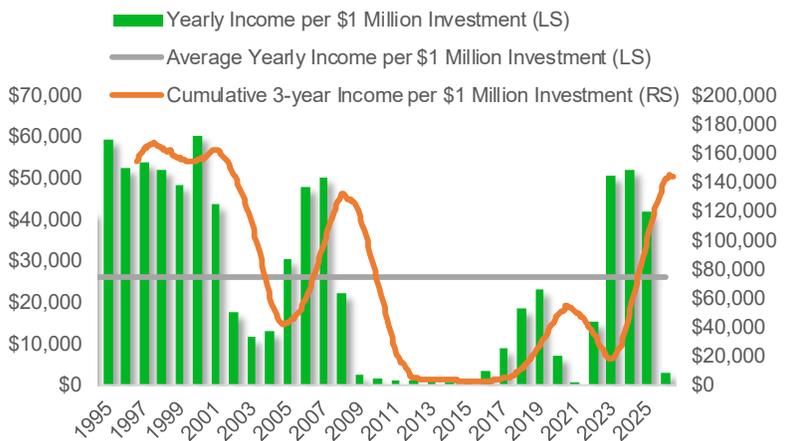
## Treasury Market



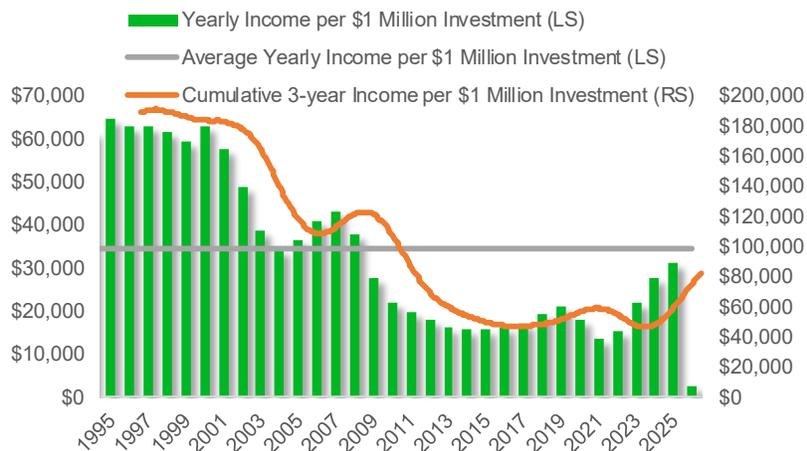
Maturity	Yield Curve (%)	Change in Yield Curve (basis points)		
		1-Mo Ago	3-Mo Ago	1-Yr Ago
1-Mo	3.68	8	-24	-62
3-Mo	3.66	3	-16	-63
6-Mo	3.63	2	-18	-67
12-Mo	3.47	-1	-22	-69
2-Yr	3.52	5	-5	-68
3-Yr	3.59	5	1	-65
5-Yr	3.79	6	10	-54
7-Yr	4.01	7	14	-43
10-Yr	4.24	7	16	-30
20-Yr	4.82	3	20	-2
30-Yr	4.87	3	22	9

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

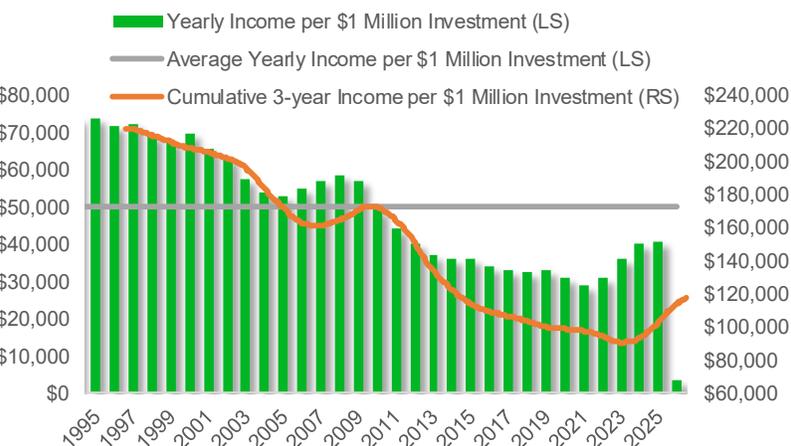
### Bloomberg U.S. 3 Month Treasury Bill Index



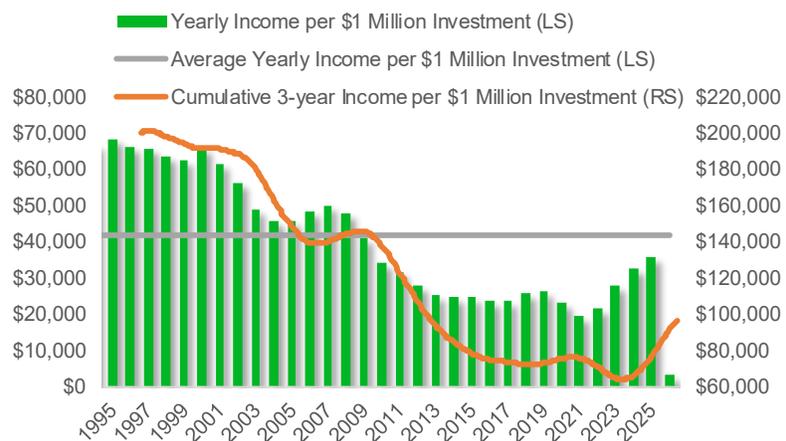
### Bloomberg U.S. Treasury 1-5 Year Index



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



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



# Talking Points



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