TD Global Investment Solutions

U.S. Fixed Income Talking Points

Commentary

2026 JUL

For the month ended July 2026

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 impulse, along with AI-related business investment is providing an offset to headwinds impacting U.S. growth (real GDP) in 2026 related to disruptions in energy and agricultural supply chains and associated higher costs due to the Middle East conflict. Uncertainty remains as to the conflict's impact on growth expectations, with continued ebbs and flows around de-escalation. The labor market faces challenges but has shown signs of stabilization, and inflation should remain above the Federal Open Market Committee's (FOMC) target rate in 2026. We expect no change to the FOMC's policy rate during this heightened period of uncertainty; even with inflation well above the FOMC's target level of two percent. 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

- Headline U.S. GDP expanded 1.5% on a SAAR basis in Q2 2026, vs 2.1% in the prior quarter. Consumer spending rose compared to the prior quarter while fixed investment remained robust amidst significant AI investment in the U.S. economy. Government spending declined compared to the prior quarter.
- The FOMC's federal funds target range is 3.50%-3.75%. U.S. Federal Reserve (the Fed) Chair Warsh offered sparse insight into how the Fed views the present state of the economy and the current monetary policy setting. Three members of the committee dissented from the July decision to leave the policy rate unchanged, favoring a rate increase.
- Treasury yields generally increased as the market reacted to an increase in oil prices and muddled communication from Warsh. The yield curve steepened over the month, as the market digested Fed policy implications from Warsh's press conference and FOMC policy decision.
- Corporate bond spreads widened marginally in July as the market reacted to an uptick in conflict in the Middle East, concerns around AI-related disruption and significant issuance related to hyperscalers and data centers, and potential weakness in certain sectors of private credit.

Investment Professionals:

Dennis Woessner, CFA, CAIA
Vice President & Director

Russell Wald, CFA
Vice President

Source: TD Asset Management, TD Economics & Bloomberg Financial L.P.; July 31, 2026

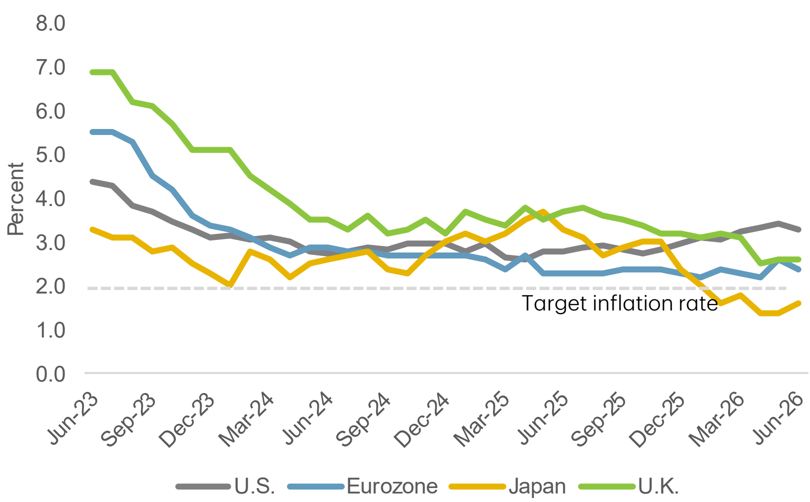
Macro Update

- Headline U.S. GDP expanded 1.5% on a SAAR basis in Q2 2026, vs 2.1% in the prior quarter. Consumer spending increased compared to the prior quarter while fixed investment remained robust amidst significant AI investment in the US economy. Government spending declined from the prior quarter.
- The impact of the Middle East conflict appears to be an offset to positive fiscal impulse of the One Big Beautiful Bill Act as higher energy prices feed through the economy. Higher energy-related costs have increased inflation, led central banks to contemplate monetary tightening, and increased interest rates. The net result has been tighter financial conditions. Ebbs and flows around de-escalation have contributed to volatility.

Long-Term Views:

- U.S. economic growth is expected to outpace other developed economies, especially in the Eurozone. Short-term interest rates globally likely remain in a higher for longer environment amidst commodity and supply chain disruptions.
- Federal Reserve policy is challenged by a second successive supply shock putting both the inflation and growth mandates in tension. 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 elevated geopolitical risks.

Inflation



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

Headline inflation in the U.S. and most major economies remain above target levels. US inflation has increased while already above the FOMC's target. We expect inflation to remain elevated over the next twelve months due to tariffs and higher energy-related costs associated with the Middle East conflict.

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

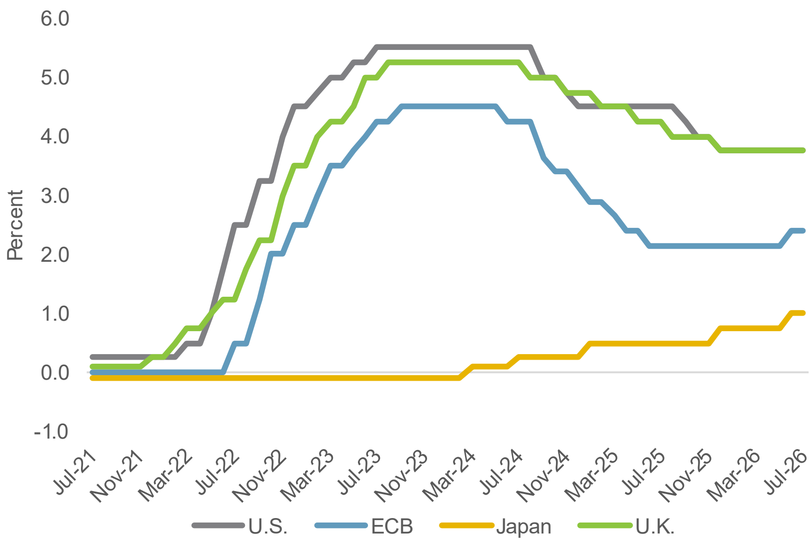
U.S. Central Bank Update

- The FOMC has maintained its policy rate range at 3.50%-3.75%. Uncertainty around the future path of monetary policy has increased as the labor market shows signs of stabilization alongside sticky and elevated inflation.
- FOMC members remain divided on timing and path for the policy rate, with three members dissenting in favor of a rate increase at the July FOMC meeting.
- New Fed Chair Kevin Warsh has shown a preference for more limited communication, shortening the statement considerably and providing little information with respect to the Fed's reaction function. Chair Warsh has contemplated changes to the number of FOMC meetings, and the measure of inflation used for the FOMC's 2% inflation target.

Long-Term Views:

- The federal funds effective rate is less restrictive as the FOMC has reduced interest rates. We expect limited change to the federal funds rate through 2026 and into 2027; however, Trump administration trade and fiscal policies, and uncertainty around the duration and magnitude of impact from the Middle East conflict are contributing to a higher for longer interest rate environment outlook.
- 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.; July 31, 2026

Major Central Bank policies are converging once again towards a higher for longer backdrop as global growth and inflation conditions are impacted by geopolitical events and the AI buildout. Central Banks remain data dependent when determining future policy decisions.

The Federal Reserve held the federal funds rate steady in July. The trajectory of the policy rate through 2026 and 2027 is more uncertain as the U.S. economy continues to expand and inflation remains above the Fed's target amidst supply shocks.

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

Cash/Short-term Market Update

- Short-term yields were mixed in July as investors recalibrated their FOMC policy outlooks (potential rate increases in 2026) as sticky inflation, signs of labor market improvement, and FOMC communication signal potential for a rate increase.
- During July, short-term credit spreads widened 3 basis points (bps), to 46 bps, as Middle East risks showed signs of escalation, though technical demand remained strong. The all-in yield on this cohort increased 14 bps during the month to 4.75%. Yields remain attractive and corporate fundamentals are solid.
- Prime money fund assets increased $10.3 billion during the 3-month period ending July 2026. Total assets are $1.23 trillion (up 4.2% Year-over-Year (YoY)).

Current Positioning:

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

Number of Hikes/Cuts Priced into Market

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

The market now expects 1-2 rate increases 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 increase from 3.62% to 4.00% by year end 2026. The FOMC expects elevated inflation, a stabilizing labor market, and above-trend economic growth. Uncertainty around this economic outlook remains elevated due to the Trump administration's trade policy and the Middle East conflict.

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

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

At 46 bps, the index OAS widened 3 bps from last month end. YoY, the index OAS is 1 bps tighter. Factors which may benefit spreads are trend GDP growth outlook, solid fundamentals, and attractive yields. Uncertainty pertaining to the Middle East conflict and monetary policy, 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's policy rate is close to its neutral rate.

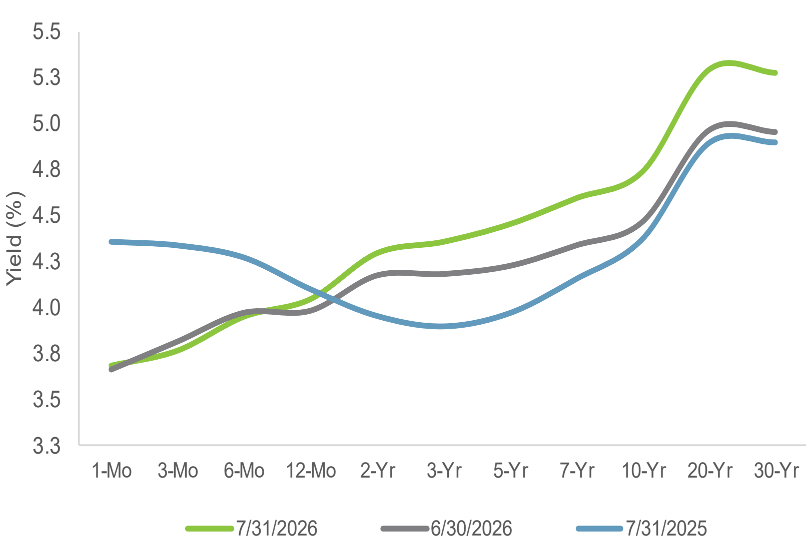
U.S. Treasury Market Update

- Treasury yields increased in July as oil prices increased stemming from an uptick in kinetic conflict in the Middle East. The Treasury curve bear steepened over the month as the market digested communication from the Fed around its decision to maintain the policy rate alongside the uptick in oil prices.
- 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 longer 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



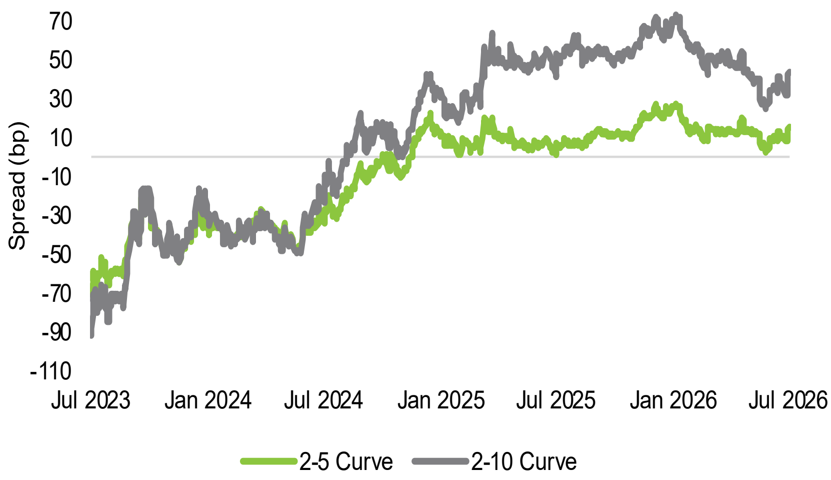
Source: Bloomberg Financial L.P.; July 31, 2026

Treasury yields generally increased during July. The yield spread between 2- and 30-year maturities increased 20 bps, to 98 bps. The yield gap between the 3-month T-Bill and 10-year Treasury at 96 bps, is 32 bps steeper since last month end.

We expect yields to be range-bound at current levels as slack in the labor market remains while economic growth remains solid and inflation sticky. Fiscal policy tailwinds and cyclical uplift from AI investment could contribute to growth in 2026 which may push longer-tenor yields higher. Prolonged supply disruptions and a possible restrictive shift in the monetary policy path could bias Treasury curves flatter. We expect interest rates to be more volatile during this period of uncertain fiscal- and trade-related policies.

A resolution to the Middle East conflict should help ease the recent spike in interest rate volatility.

Treasury Curves



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

Yields in the belly of the Treasury curve increased during the month amidst expectations for a higher for longer interest rate environment. Signs of escalation in the Middle East conflict and subsequently higher oil prices also contributed. The 2s10s curve increased 15 bps, to 44 bps. The 2s5s curve, at 15 bps, was 11bps steeper.

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

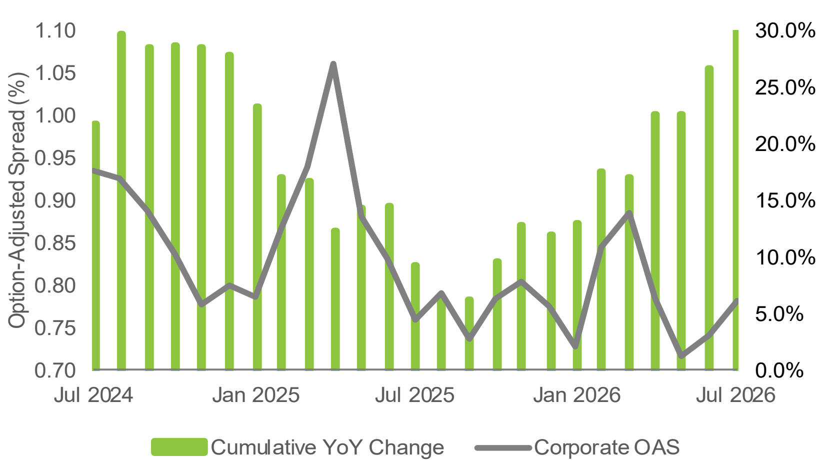
Investment Grade Credit Market Update

- Corporate bond spreads increased 4 bps, to 78 bps, and the credit curve steepened relative to last month as investors weighed risks of a higher for longer rate environment and escalation of Middle East conflict alongside record corporate bond issuance. The yield on the Corporate Index rose 26 bps to 5.46% 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 may 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 longer duration profiles relative to their respective benchmark.

Corporate Spread & Issuance

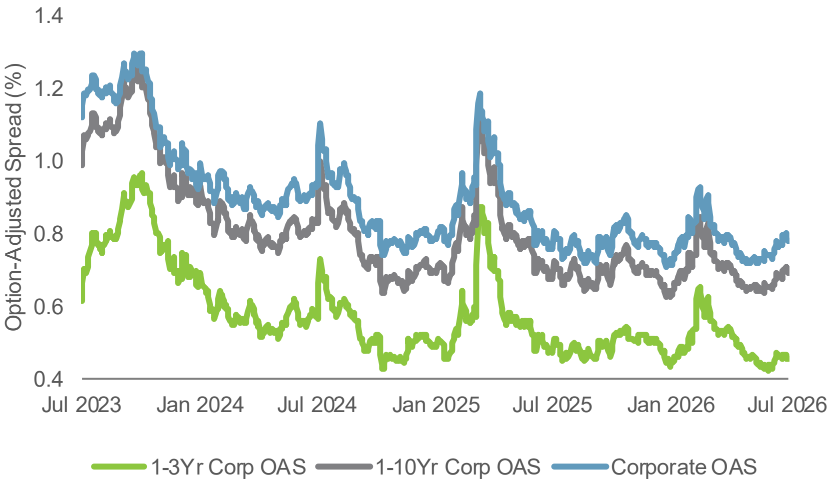


Source: Bloomberg Financial L.P.; July 31, 2026

For the month, corporate bond issuance was $144 billion, 58% higher from the same period last year. Year-to-date (YTD) issuance is 33% higher than the same period last year. The cumulative 12-month change is 33%. The spread on the corporate bond index, at 78 bps, is 4 bps wider for the month.

YTD corporate bond issuance is $1.394 trillion – a record for the first seven months of the year. Expected issuance for 2026 is ~$2.1 trillion with the YoY increase fueled by AI-related investment from hyperscalers such as Google, Amazon, Meta, Microsoft and Oracle.

Corporate Spreads by Maturity



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

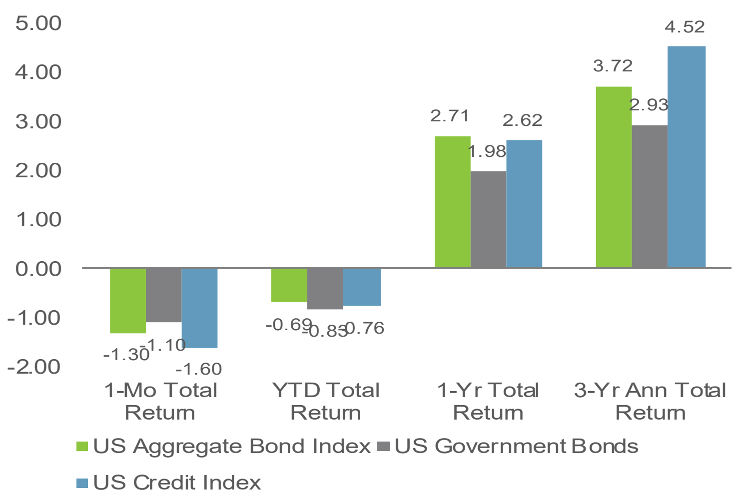
The Bloomberg U.S. Corporate Bond Index spread is 2 bps wider during the past 12-months. Relatively attractive yields and record issuance continue to be two key themes within this sector. Factors which may benefit future spreads are trend GDP growth outlook, solid fundamentals, and attractive, elevated yields.

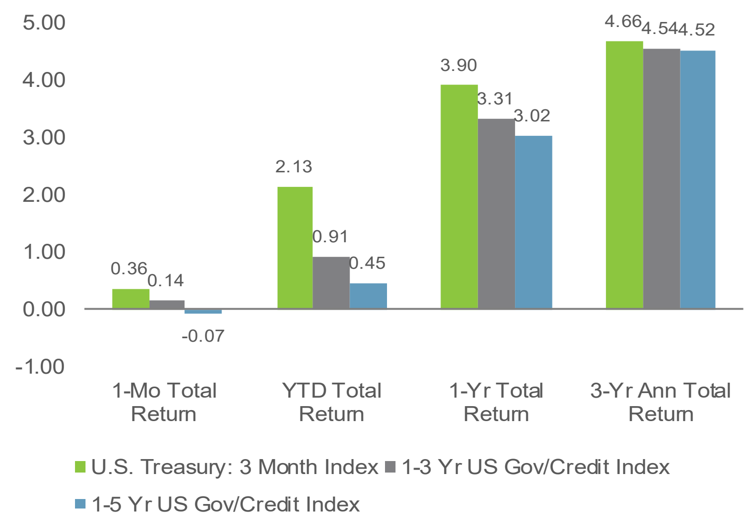
Large scale debt issuance from hyperscalers, sustainability and magnitude of AI related investment, and uncertainty around areas affected by creative destruction from AI technology continue to be areas of focus for investors.

The corporate bond index OAS is 4 bps wider since last month end, currently 78 bps. The 1-10-year corporate bond index OAS, at 69 bps, is 4bps wider, while the 1-3-year corporate bond index is 3 bps wider, now 46 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	3.75	4.50	9/16/2026
CPI (YoY %)	3.50	3.30	2.70	8/12/2026
PCE (YoY %)	3.70	3.50	2.60	8/26/2026
Unemployment Rate (%)	4.20	4.30	4.10	8/7/2026
GDP (YoY %)	2.10	2.70	2.10	8/26/2026
Retail Sales (YoY %)	6.70	4.20	4.00	8/14/2026
Leading Indicators (YoY %)	-1.40	-3.00	-3.80	8/20/2026
Housing Starts (000s)	1,427	1,522	1,379	8/18/2026

Description	Current	3-mo Ago	1-yr Ago
Fed Funds (%)	3.75	3.75	4.50
3-Mo U.S. Treasury Bill	3.76	3.67	4.34
6-Mo U.S. Treasury Bill	3.95	3.69	4.28
USD O/N Govt. Repo	3.70	3.71	4.40
U.S. 30-Day Comm Paper*	3.67	3.69	4.31
U.S. 90-Day Comm Paper*	3.83	3.81	4.35

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

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

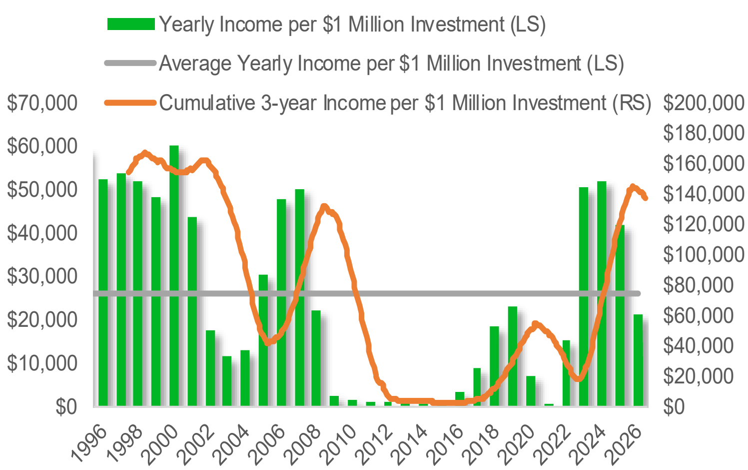
Charts & Tables - continued

Treasury Market

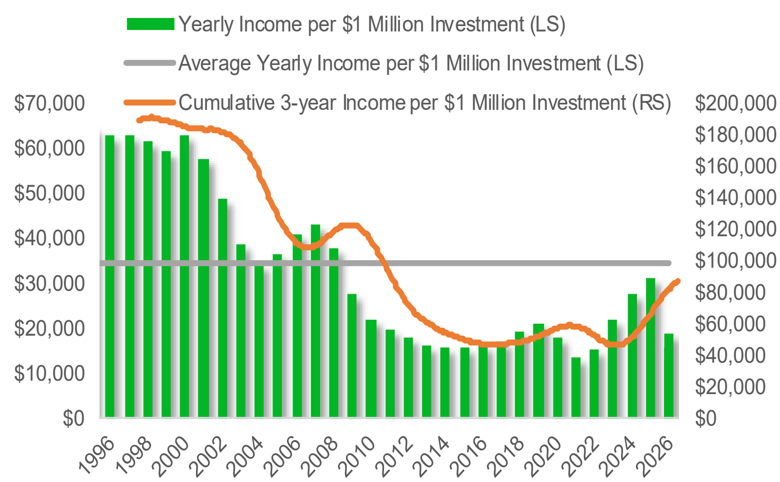
Change in Yield Curve (basis points)				
Maturity	Yield Curve (%)	1-Mo Ago	3-Mo Ago	1-Yr Ago
1-Mo	3.68	2	4	-68
3-Mo	3.76	-6	10	-58
6-Mo	3.95	-3	26	-33
12-Mo	4.04	6	33	-6
2-Yr	4.29	12	42	33
3-Yr	4.35	17	46	45
5-Yr	4.45	22	44	48
7-Yr	4.59	25	40	43
10-Yr	4.74	27	36	36
20-Yr	5.29	33	33	39
30-Yr	5.27	32	31	37

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

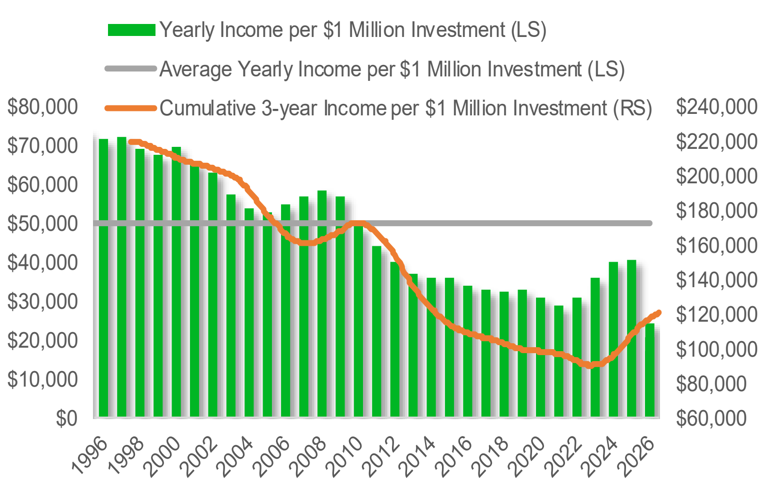
Bloomberg U.S. 3 Month Treasury Bill Index



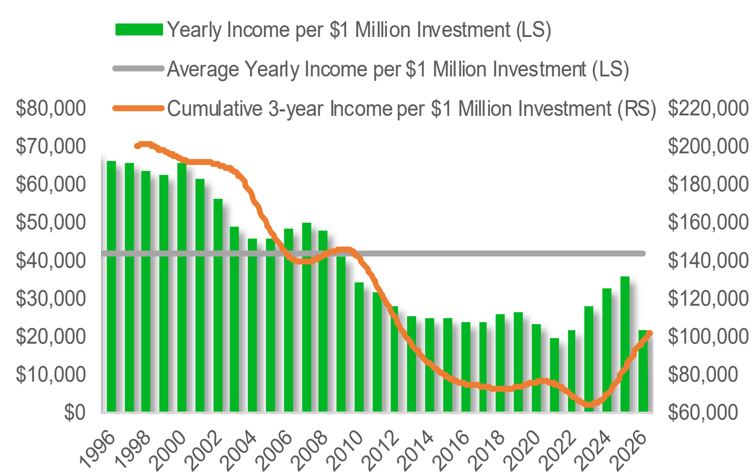
Bloomberg U.S. Treasury 1-5 Year Index



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



Bloomberg U.S. Intermediate Government/Credit Index



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

Charts & Tables - continued

Fixed Income Model Characteristics – Summary Level

Ladder Models	TD 1-3 Year Treasury Bond Ladder Managed Account	Bloomberg US Treasury 1-3 Year Index	TD 1-5 Year Treasury Bond Ladder Managed Account	Bloomberg US Treasury 1-5 Year Index	TD 1-5 Year A Minimum Corporate Bond Ladder Managed Account	Bloomberg US Corporate Bond 1-5 Year Index	TD 1-5 Year BBB Minimum Corporate Bond Ladder Managed Account	Bloomberg US Corporate Bond 1-5 Year Index
MINIMUM ACCOUNT SIZE	$100,000	-	$100,000	-	$100,000	-	$100,000	-
YIELD TO WORST	4.28%	4.27%	4.31%	4.32%	4.71%	4.92%	4.86%	4.92%
YEARS TO MATURITY	2.1	2.0	2.8	2.8	2.9	3.0	3.0	3.0
DURATION	1.9	1.9	2.6	2.6	2.6	2.7	2.7	2.7
QUALITY	AA1	AA1	AA1	AA1	A2	A3	A3	A3
NUMBER OF HOLDINGS	8	96	17	154	46	3,329	49	3,329

Ladder Models	TD 1-10 Year Treasury Bond Ladder Managed Account	Bloomberg US Treasury 1-10 Year Index	TD 1-10 Year A Minimum Corporate Bond Ladder Managed Account	Bloomberg US Intermediate Corporate Bond Index	TD 1-10 Year BBB Minimum Corporate Bond Ladder Managed Account	Bloomberg US Intermediate Corporate Bond Index
MINIMUM ACCOUNT SIZE	$100,000	-	$100,000	-	$100,000	-
YIELD TO WORST	4.46%	4.39%	4.94%	5.14%	5.10%	5.14%
YEARS TO MATURITY	5.4	4.0	5.4	4.9	5.4	4.9
DURATION	4.6	3.5	4.5	4.1	4.5	4.1
QUALITY	AA1	AA1	A2	A3	BAA1	A3
NUMBER OF HOLDINGS	36	199	49	5,663	49	5,663

Active Models	TD Short Government/Corporate Bond (A Min) Managed Account Institutional	ICE BofA 1-3 Year AAA-A US Corporate & Government Index	TD Short/Intermediate Government Bond Managed Account	ICE BofA 1-5 Year US Treasury & Agency Index	TD Short/Intermediate Government/Corporate Bond Managed Account	ICE BofA 1-5 Year AAA-A US Corporate & Government Index	TD Short/Intermediate Government/Corporate Bond A2 Min No Foreign Restricted Managed Account	ICE BofA US Issuers 1-5 AAA-A US Corporate & Government Index
MINIMUM ACCOUNT SIZE	$250,000	-	$250,000	-	$250,000	-	$250,000	-
YIELD TO WORST	4.41%	4.33%	4.31%	4.31%	4.46%	4.41%	4.39%	4.37%
YEARS TO MATURITY	2.0	2.0	2.8	2.7	2.8	2.8	2.8	2.8
DURATION	1.9	1.8	2.5	2.5	2.6	2.6	2.6	2.5
QUALITY	AA3	AA2	AA1	AA1	AA3	AA2	AA2	AA2
NUMBER OF HOLDINGS	54	1,796	33	439	78	3,305	53	2,014

Active Models	TD Intermediate Government Bond Managed Account	Bloomberg U.S. Government Intermediate Bond Index	TD Intermediate Government/Credit A-Min Bond Managed Account	Bloomberg U.S. Intermediate Government/Credit A or Higher Bond Index	TD Intermediate Government/Corporate Bond Managed Account	Bloomberg U.S. Intermediate Government/Credit Bond Index	TD Long Government/Corporate Bond Managed Account	Bloomberg U.S. Government/Credit Bond Index
MINIMUM ACCOUNT SIZE	$250,000	-	$250,000	-	$250,000	-	$250,000	-
YIELD TO WORST	4.38%	4.39%	4.54%	4.51%	4.66%	4.62%	4.94%	4.88%
YEARS TO MATURITY	4.0	4.0	4.2	4.1	4.3	4.3	8.1	8.5
DURATION	3.5	3.5	3.7	3.6	3.7	3.7	6.0	5.9
QUALITY	AA1	AA1	AA2	AA1	A1	AA2	A1	AA2
NUMBER OF HOLDINGS	63	485	99	3,563	137	6,670	161	10,241

Institutional Model	TD Core Bond Managed Account Institutional	Bloomberg U.S. Aggregate Bond Index
MINIMUM ACCOUNT SIZE	$10,000,000	-
YIELD TO WORST	5.08%	4.98%
YEARS TO MATURITY	7.8	8.2
DURATION	5.9	5.8
QUALITY	A1	AA2
NUMBER OF HOLDINGS	149	14,161

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

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