TD Global Investment Solutions

Talking Points

Commentary | Jun

For the month ended June 2025

Fixed Income Outlook

TD Asset Management emphasizes capital preservation in our active fixed income portfolios while seeking to maintain a yield advantage relative to the benchmark. We expect U.S. growth (real GDP) will slow to below trend in 2025 with a slight uptick in 2026 due to a fiscal policy boost. The height of economic uncertainty has passed as trade agreements/frameworks continue to be realized, mitigating the more extreme tariffs, and a federal budget should be signed into law before the end of July. Economic survey data indicate a broad-based slowdown with above-target inflation. The U.S. labor market continues to be resilient but is expected to weaken during 2025. The Federal Open Market Committee (FOMC) will reduce its policy rate during the latter part of 2025 and into 2026 as the pass-through impact of tariffs is better understood, and the labor market weakens further. We remain constructive, and very selective toward corporate credit and are comfortable with our strategic credit positioning. Corporate bonds continue to offer some value over government bonds; thus, we maintain our preference for high-quality investment grade corporates. We continue to be positioned with an emphasis on liquidity and quality.

Focal Points

- U.S. GDP decreased 0.5% in 1Q 2025 (2.4% in 4Q 2024). Equipment spending and inventories surged and were main contributors to growth. Household consumption grew at its slowest post-COVID rate. Domestic demand is at its weakest level in nine quarters. Historically high imports detracted from GDP growth.

- The current federal funds target range is 4.25%-4.50%. The FOMC's median federal funds forecast for year end 2025 is 3.875%. Amid the uncertainty, the FOMC expects, above-target inflation, a weakening labor market, and below trend economic growth in 2025 and 2026.

- U.S. Treasury yields decreased, and the yield curve slightly steepened. Most hard economic data continue to indicate a resilient U.S. economy. Tariff uncertainty and tariff-related price hikes will negatively impact household and business spending into 3Q 2025. This may allow interest rates to move lower from current levels.

- Corporate bond spreads narrowed month over month as investors increased their exposure to the asset class amidst a benign macroeconomic environment and reduced tariff uncertainty..

Investment Professionals:

Dennis Woessner, CFA, CAIA
Vice President & Director

Russell Wald, CFA
Vice President

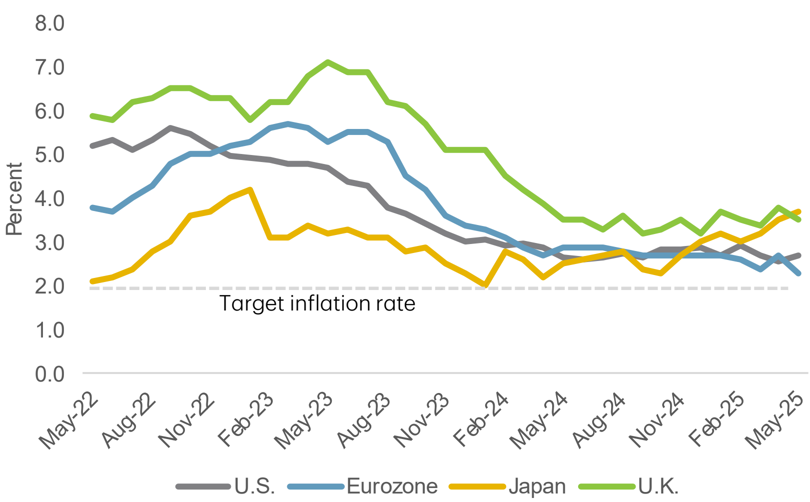
Macro Update

- U.S. real GDP decreased 0.5% in 1Q 2025 (2.4% in 1Q 2024). A sequential slowdown in household consumption (slowest post-COVID rate) was more than offset by the surge in equipment spending and inventories. Net exports detracted from growth as imports surged during the quarter, likely pulled forward due to tariffs. Domestic demand was softer, ending the quarter at its weakest level since 4Q 2022.
- We expect uncertainties related to tariff policy and fiscal policy to push U.S. growth (real GDP) to below trend (~2.0%) in 2025. These negative impulses will constrict household consumption and business spending. We believe the labor market will weaken during the remaining part of this year.

Long-Term Views:

- U.S. growth will be positive, at the margin, while global economic growth remains relatively weak, 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 economic growth 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.; June 30, 2025

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 be biased upward in the US and remain elevated over the next twelve months due implementation of tariff and trade-related policies.

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

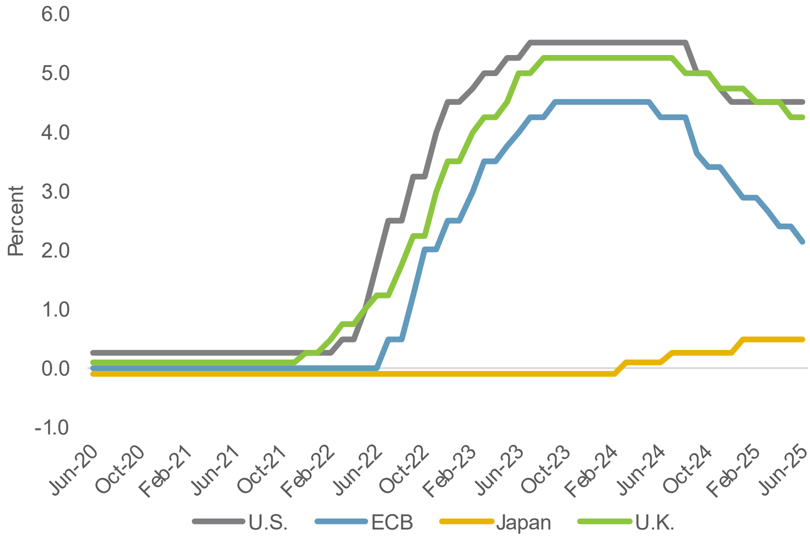
U.S. Central Bank Update

- The current federal funds target range is 4.25%-4.50%. The pace of rate cuts will slow in 2025 due to above-target inflation, a slightly weaker labor market, and a less restrictive policy rate. The FOMC is mindful of heightened uncertainty within its economic outlook and indicated a willingness to look through tariff-impacted inflation they view as one-off if growth meaningfully weakens.
- The FOMC's summary of economic projections report shows below-trend growth, higher-for-longer inflation, a slightly weaker labor market, and a declining federal funds rate, to 3.875% by year end 2025. Uncertainty in the FOMC's economic outlook has diminished but remains elevated due to tariffs.

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 in 2025; however, this outcome is highly uncertain due to the current administration's tariff and fiscal policy agenda.
- The FOMC is committed to its monetary policy framework and market facilities to support price stability, labor markets, and financial market liquidity.

Central Bank Policy Rates



Source: Bloomberg Financial L.P.; June 30, 2025

Most major Central Banks are lowering policy rates as data are showing moderating growth even as inflation remains sticky. Central Banks remain data dependent when determining future policy decisions.

The Federal Reserve reduced the federal funds rate by 1.0 ppt in the latter third on 2024. The trajectory of rate cuts will be shallower than forecast due to uncertain trade and economic policies. The upper bound of FOMC's policy range has been held at 4.50% since last December (as shown in graph).

Cash/Short-term Market Update

- Short-end Treasury yields decreased during the month. Tariff uncertainty will negatively impact household and business spending into 3Q 2025 which will contribute to a softening macro economic setting. Absent a timely positive fiscal impulse interest rates are skewed lower at this moment.
- Short-term credit spreads narrowed 4 bps, to 52 bps, during June. Decreased trade-related uncertainty was the main factor in the spread move. Solid fundamentals, attractive yields, and durable growth have supported credit spreads.
- Prime money fund assets increased $26.2 billion during the 3-month period ending June 2025. Total assets are $1.163 trillion (up 11% 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.; June 30, 2025

Fewer rate cuts are expected in 2025 as the FOMC's updated projections indicate that inflation will remain higher for longer. It expects the PCE price index to reach the 2.0% target by year-end 2027.

The implied policy rate reached a peak rate of 5.3% in 2024. This rate is now expected to decline along a much shallower path in 2025 due elevated inflation, slightly below-trend economic growth, and the uncertain economic impact from trade and economic policies.

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

Source: Bloomberg Financial L.P.; June 30, 2025

At 52 bps, the index OAS is 4 bps tighter from last month end. Year-over-year, the index OAS is 8 bps 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 are negatively affecting corporate bond spreads.

Corporate fundamentals are expected to weaken from a strong base as growth slows to below trend. Financial conditions are not overly restrictive as the FOMC is easing policy restriction and spreads remain near multiyear tight levels.

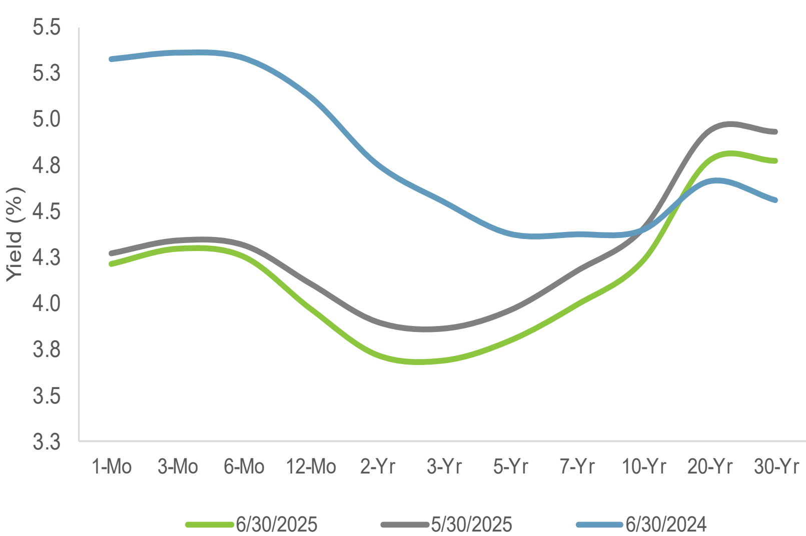
U.S. Treasury Market Update

- U.S. Treasury yields decreased, and the yield curve steepened as some pullback in household and business spending is expected to reduce economic growth during the next couple quarters. Hard economic data continue to indicate a resilient U.S. economy with limited impact from tariff-related policies.
- The scale and scope of the Trump administration's trade, tax, immigration, and regulatory policies to expected real economic growth, inflation, and fiscal deficits remains uncertain. Overall, these policies have elevated short-term implied inflation rates.

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

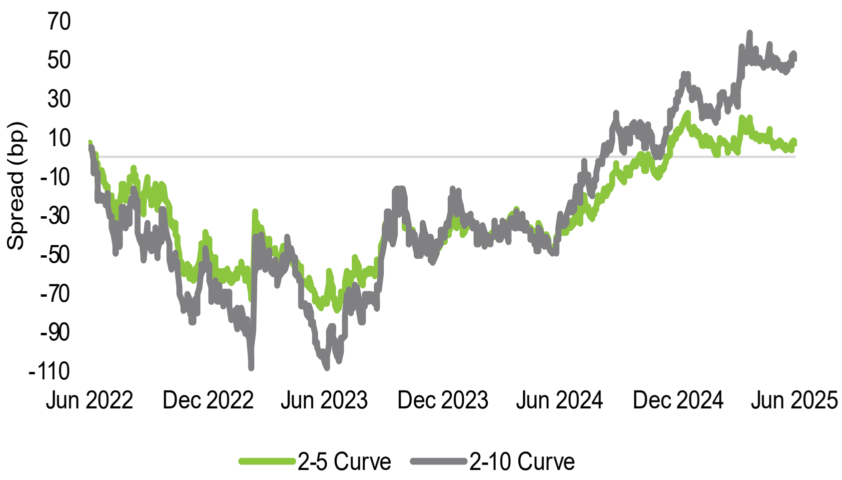


Source: Bloomberg Financial L.P.; June 30, 2025

Treasury yields decreased during June. The spread between 2- and 30-year maturities increased 2 bps, to 106 bps. The yield gap between the 3-month T-Bill and 10-year Treasury is -7 bps, 13 bps flatter since last month end.

We expect yields to move lower from current levels as labor demand weakens, and economic growth slows without stimulative fiscal policy. The FOMC's policy framework is still restrictive. 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.; June 30, 2025

The belly of the Treasury curve bull steepened during the month as markets weighed near-term interest rate cuts, higher than expected fiscal deficits, and potentially higher rates over the medium and longer term. Investors maintain focus on indicators pointing to weaker economic growth and sticky inflation outlooks. The 2s10s curve increased 1 bp, to 51 bps. The 2s5s curve, at 8 bps, increased 1 bps.

Investment Grade Credit Market Update

- Corporate bond spreads narrowed 5 bps, to 83 bps, and the credit curve slightly flattened relative to last month. Mostly-firm economic data, and reduced uncertainty regarding trade and economic policies were positive factors. Corporate bond yields moved lower during the month.
- Investors are monitoring U.S. trade policy and potential retaliatory measures as it relates economic growth and corporate earnings.
- Looking forward, corporate fundamentals should remain solid but will continue to weaken from very strong levels as the economy enters a period of below trend growth.

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.

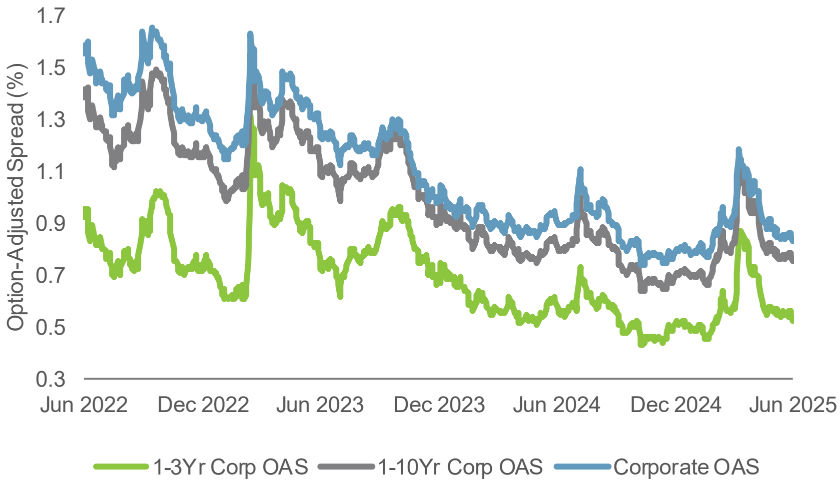
Corporate Spread & Issuance

Source: Bloomberg Financial L.P.; June 30, 2025

In June, corporate bond issuance was $122 billion, a 12% increase from the same period last year. The cumulative 12-month change is 14%. The spread on the corporate bond index, at 83 bps, is 5 bps tighter on the month.

YTD issuance is $954 billion. Expected corporate bond issuance for 2025 is $1.55 trillion; therefore, we expect a slowdown in issuance for the remainder of 2025.

Corporate Spreads by Maturity



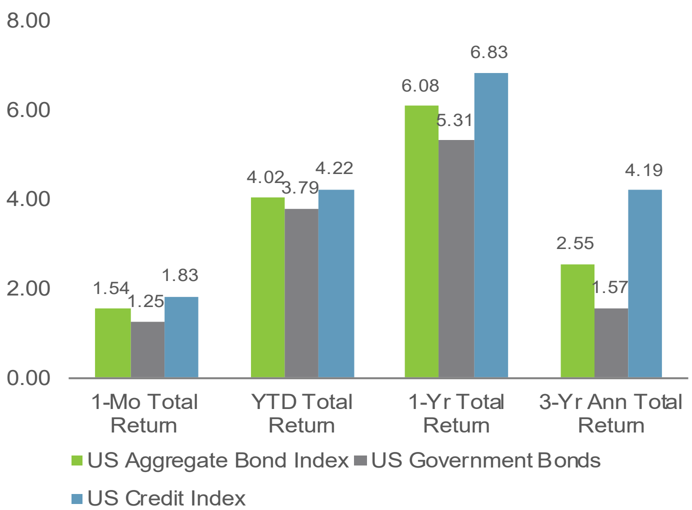
Source: Bloomberg Financial L.P.; June 30, 2025

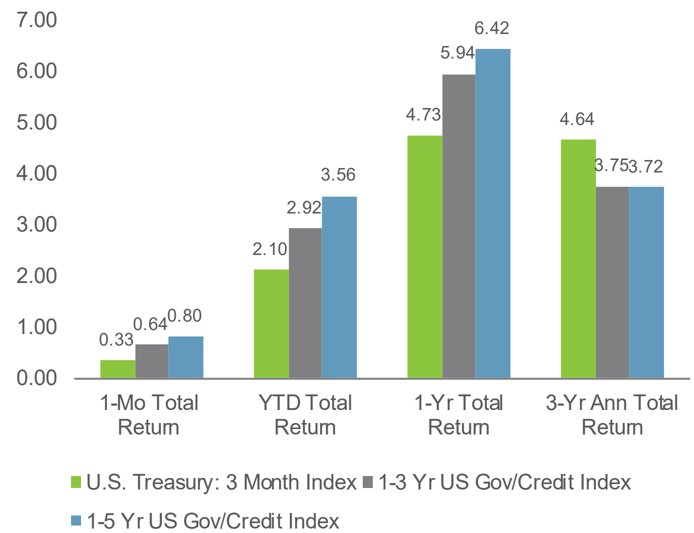
The Bloomberg U.S. Corporate Bond Index spread is 11 bps tighter during the past 12-month period. There has been strong investor demand during a period of relatively higher yields and record issuance. Factors which may benefit future spreads are trend GDP growth outlook, solid fundamentals, and an easing FOMC policy framework. Uncertainty from tariff and fiscal policies is negatively impacting spreads.

The corporate bond index OAS is 5 bps tighter since last month end, currently 83 bps. The 1-10-year index OAS, at 75 bps, is 4 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 (%)	4.50	4.50	5.50	7/30/2025
CPI (YoY %)	2.40	2.80	3.30	7/15/2025
PCE (YoY %)	2.30	2.70	2.60	7/31/2025
Unemployment Rate (%)	4.20	4.10	4.00	7/3/2025
GDP (YoY %)	2.00	2.50	2.90	7/30/2025
Retail Sales (YoY %)	3.30	3.90	2.80	7/17/2025
Leading Indicators (YoY %)	-4.00	-3.00	-5.00	7/21/2025
Housing Starts (000s)	1,256	1,490	1,316	7/18/2025

Description	Current	3-mo Ago	1-yr Ago
Fed Funds (%)	4.50	4.50	5.50
3-Mo U.S. Treasury Bill	4.30	4.30	5.36
6-Mo U.S. Treasury Bill	4.25	4.23	5.33
USD O/N Govt. Repo	4.49	4.52	5.34
U.S. 30-Day Comm Paper*	4.33	4.31	5.32
U.S. 90-Day Comm Paper*	4.36	4.33	5.38

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

Source for all charts and tables: Bloomberg Financial L.P.; June 30, 2025

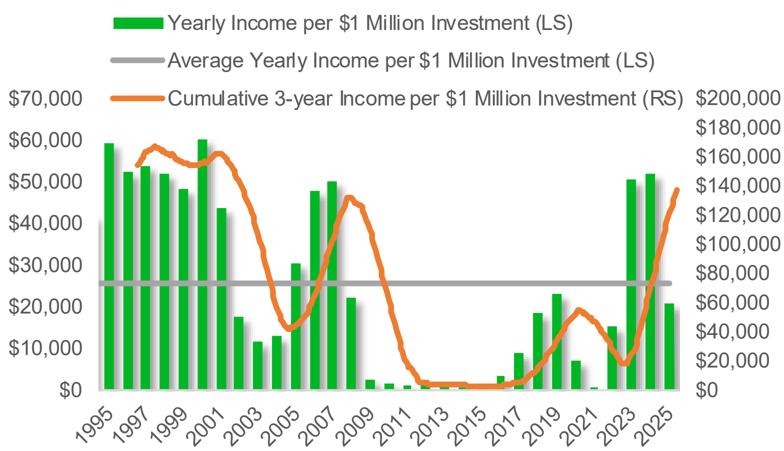
Charts & Tables - continued

Treasury Market

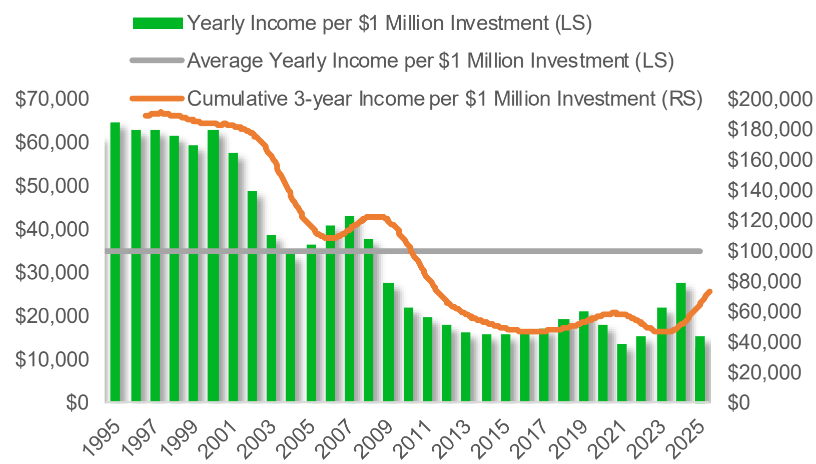
Maturity	Yield Curve (%)	Change in Yield Curve (basis points) 1-Mo Ago	3-Mo Ago	1-Yr Ago
1-Mo	4.22	-6	-9	-111
3-Mo	4.30	-4	0	-106
6-Mo	4.25	-6	3	-107
12-Mo	3.97	-14	-6	-115
2-Yr	3.72	-18	-16	-103
3-Yr	3.69	-17	-19	-86
5-Yr	3.80	-17	-15	-58
7-Yr	3.99	-18	-8	-38
10-Yr	4.23	-17	2	-17
20-Yr	4.78	-16	18	12
30-Yr	4.78	-16	20	22

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

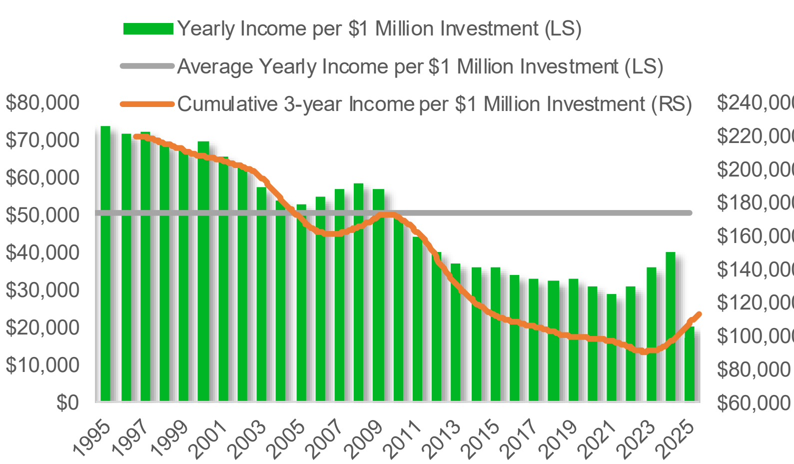
Bloomberg U.S. 3 Month Treasury Bill Index



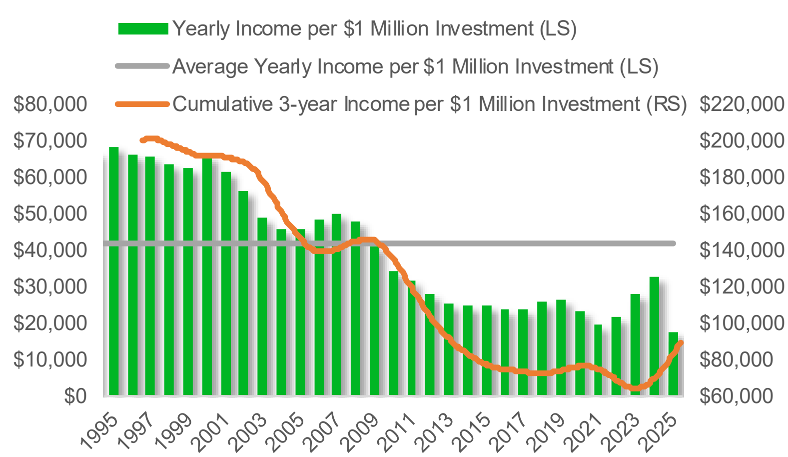
Bloomberg U.S. Treasury 1-5 Year Index



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.; June 30, 2025

Talking Points

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