



Talking Points

Commentary

For the month ended March 2026

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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, along with Artificial Intelligence (AI)-related business investment should lead to a slight uptick in U.S. growth (real GDP) in 2026. However, the Middle East conflict increases the uncertainty related to future U.S. and global growth expectations; with increasing risk that higher costs trigger slower consumption and growth due to supply chain disruptions within the energy and agriculture sectors. The labor market will remain weak, and inflation should remain above the Federal Open Market Committee (FOMC)'s 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

- Fourth quarter 2025 U.S. Gross Domestic Product (GDP) expanded at a 0.7% SAAR, down from 1.4% in the advance estimate. This reflects downward revisions to consumer spending, net exports, and government spending. The prior quarter's annualized growth rate was 4.4%. The closure of the federal government shaved nearly 1.2 ppts from fourth quarter growth. Most of this loss should reverse in the first quarter 2026.
- The FOMC's federal funds target range is 3.50%-3.75%. Its March statement noted continued stabilization in the unemployment rate and the impact to the U.S. economy from the Middle East conflict is uncertain. The median year-end 2026 policy rate forecast is 3.4%. The FOMC improved its 2026 economic growth outlook while raising both core and headline inflation forecasts.
- Treasury yields increased in March amid surging oil prices and geopolitical uncertainty stemming from the Middle East conflict. The market has shifted from two interest rate cuts in 2026 by the FOMC to a higher-for-longer outlook. This change caused the yield curve to bear flatten – short-end yields increased more than long-end yields.
- Corporate bond spreads widened in March due to the economic and geopolitical uncertainty noted above. This is an additional factor contributing to market volatility, along with AI-related disruption concerns in certain sectors of the public and private credit markets.

Investment Professionals:

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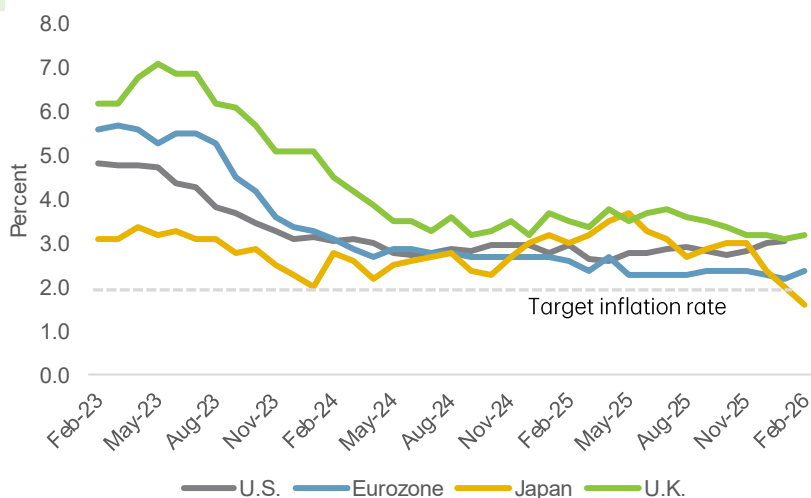
Macro Update

- Fourth quarter 2025 U.S. GDP expanded at a 0.7% SAAR, down from 1.4% in the advance estimate. This reflects downward revisions to consumer spending, net exports, and government spending. The closure of the federal government shaved nearly 1.2 ppts from fourth quarter growth. Most of this damage should reverse in the first quarter 2026. Private final domestic demand remained solid in the fourth quarter.
- The positive fiscal impulse of the One Big Beautiful Bill Act is partly offset by the Middle East conflict. Significantly higher energy-related costs have increased inflation forecasts, lowered economic growth projections, paused or removed central bank rate cuts, increased interest rates, and widened credit spreads. The net result being tighter financial conditions.

Long-Term Views:

- U.S. economic growth is expected to outpace other developed economies, especially in the Eurozone. Short-term interest rates can continue to diverge in developed markets as growth and inflation paths deviate globally amidst commodity and supply chain disruptions.
- 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 elevated geopolitical risks.

Inflation



Source: Bloomberg Financial L.P.; March 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 to tariffs and higher energy-related costs due to the Middle East conflict.

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. PCE inflation data (the FOMC's preferred inflation gauge) for February has been delayed due to the federal government shutdown.

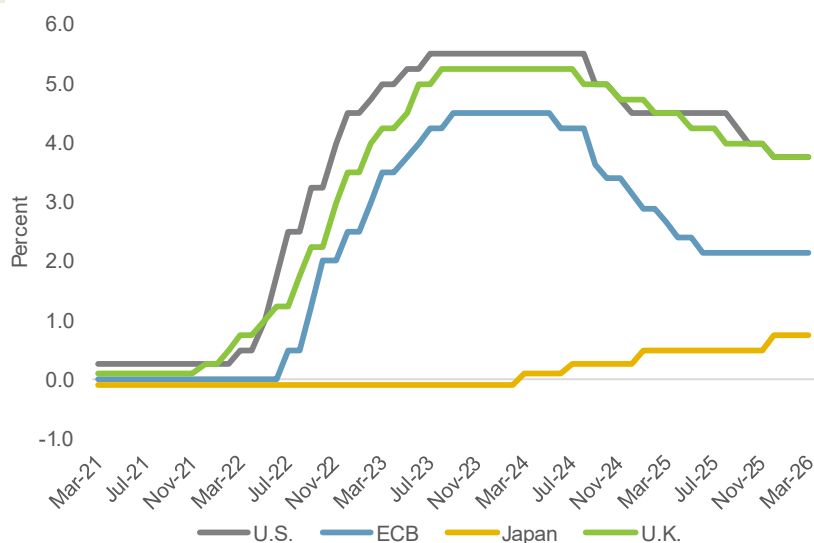
U.S. Central Bank Update

- In its March meeting, the FOMC maintained its policy rate range at 3.50%-3.75%. The statement cites "somewhat elevated" inflation and an unemployment rate that "has been little changed in recent months." The effects on the U.S. economy from the Middle East conflict are uncertain.
- Despite heightened uncertainty, the Summary of Economic Projections (SEP) showed more optimistic growth and stickier inflation in 2026. The median year-end 2026 policy rate forecast is 3.4%, which reflects one 0.25% rate cut.
- In his press conference, Chair Powell described the policy rate as "mildly restrictive," and noted that there are downside risks to the labor market, and upside risks to inflation. He also noted that the FOMC typically "looks through" energy shocks when setting the federal funds rate.

Long-Term Views:

- The federal funds effective rate is less restrictive as the FOMC has reduced interest rates. We expect a shallower federal funds rate cut path through 2026 and into 2027; 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.; March 31, 2026

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

The Federal Reserve held the federal funds steady in March. The trajectory of rate cuts through 2026 and 2027 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).

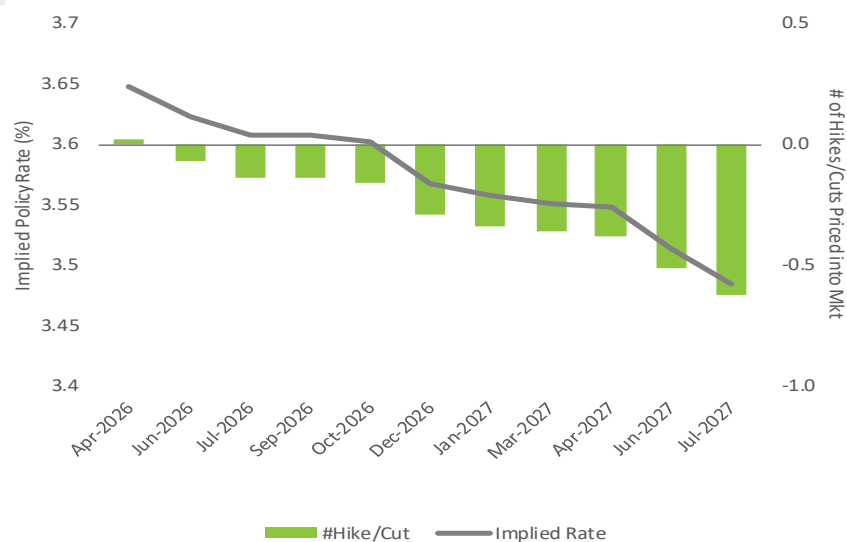
Cash/Short-term Market Update

- The short end of the yield curve bear steepened in March as investors recalibrated their inflation outlook (higher inflation) and FOMC policy outlooks (no rate cuts in 2026) due to the Middle East conflict.
- During March, short-term credit spreads widened 9 basis points (bps), to 61 bps, primarily due to a risk-off sentiment triggered by the Middle East conflict and record amount of corporate bond issuance. The all-in yield on this cohort rose 48 bps, to 4.45%. Yields remain attractive and corporate fundamentals are solid.
- Prime money fund assets increased \$29.4 billion during the 3-month period ending March 2026. Total assets are \$1.25 trillion (up 9.8% 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.; March 31, 2026

No 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 3.65% to 3.57% by year end 2026. The FOMC expects elevated inflation, a soft 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.; March 31, 2026

At 61 bps, the index OAS widened 9 bps from last month end. Year-over-year, the index OAS is 2 bps wider. Factors which may benefit spreads are trend GDP growth outlook, solid fundamentals, attractive yields, and an easing FOMC policy framework. Uncertainty pertaining to the Middle East conflict, 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.

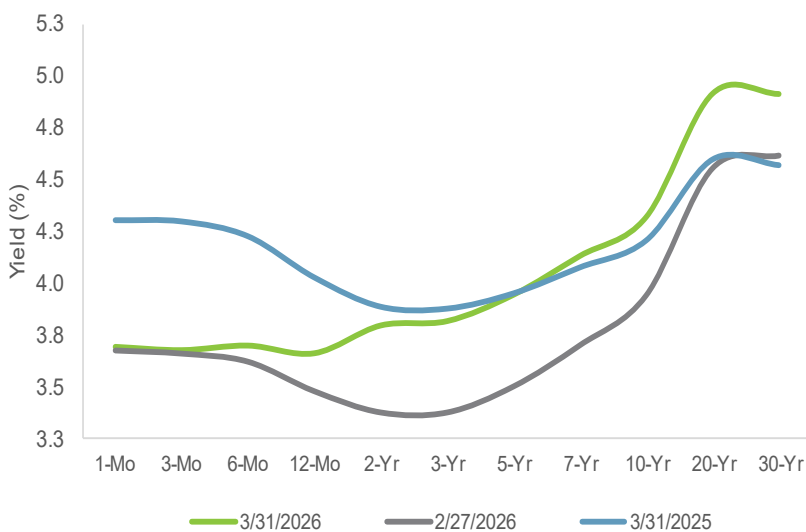
U.S. Treasury Market Update

- Treasury yields increased in March amid surging oil prices and geopolitical uncertainty stemming from the Middle East conflict. The market has shifted from two interest rate cuts in 2026 by the FOMC to a higher-for-longer outlook. This change caused the yield curve to bear flatten – short-end yields increased more than long-end yields
- 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



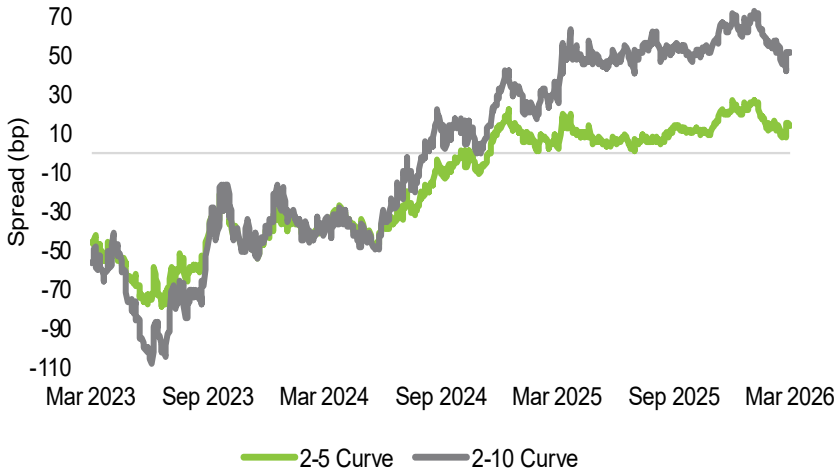
Source: Bloomberg Financial L.P.; March 31, 2026

Treasury yields increased during March. The yield spread between 2- and 30-year maturities decreased 12 bps, to 112 bps. The yield gap between the 3-month T-Bill and 10-year Treasury at 64 bps, is 36 bps steeper 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.

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

Treasury Curves



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

Yields in the belly of the Treasury curve increased during the month as the FOMC left its policy rate unchanged in March, but leaned modestly hawkish with both growth and inflation revised higher. Additionally, surging oil prices and geopolitical uncertainty stemming from the Middle East conflict are impacting Treasury curves. The 2s10s curve decreased 4 bps, to 52 bps. The 2s5s curve, at 15 bps, increased 2 bp.

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 89 bps, and the credit curve flattened relative to last month primarily due to a risk-off sentiment triggered by the Middle East conflict and record amount of corporate bond issuance. The yield on the Corporate Index moved 41 bps higher, to 5.14%, 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 longer duration profiles relative to their respective benchmark.

Corporate Spread & Issuance

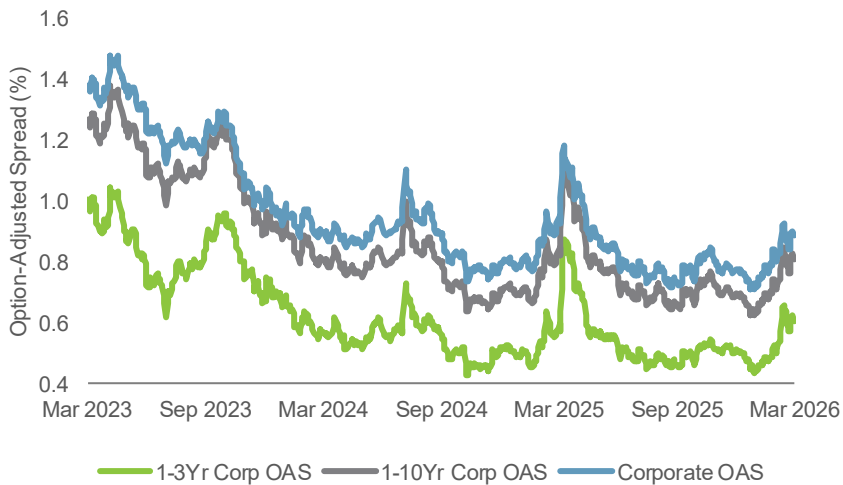


Source: Bloomberg Financial L.P.; March 31, 2026

For the month, corporate bond issuance was \$244 billion, 24% higher from the same period last year. Year-to-Date (YTD) issuance is 19% higher than the same period last year. The cumulative 12-month change is 17%. The spread on the corporate bond index, at 89 bps, is 4 bps wider for the month.

YTD corporate bond issuance is \$669 billion – a record for a first quarter. 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.; March 31, 2026

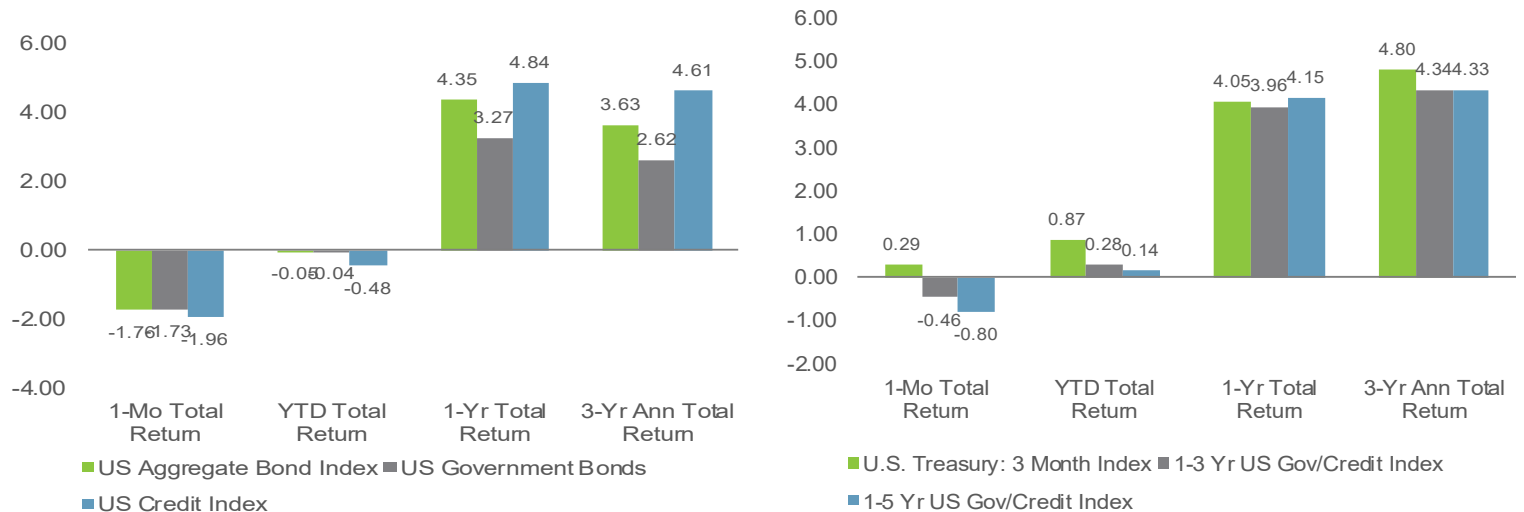
The Bloomberg U.S. Corporate Bond Index spread is 5 bps tighter during the past 12-months. Relatively attractive yields and record issuance continue to be two key themes within this sector. Factors which may benefit future spreads are trend GDP growth outlook, solid fundamentals, and an easing FOMC policy framework.

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 89 bps. The 1-10-year corporate bond index OAS, at 81 bps, is 6 bps wider while the 1-3-year corporate bond index is 9 bps, now 61 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	4/29/2026
CPI (YoY %)	2.40	2.70	2.80	4/10/2026
PCE (YoY %)	2.80	2.70	2.60	4/9/2026
Unemployment Rate (%)	4.40	4.50	4.20	4/3/2026
GDP (YoY %)	2.00	2.30	2.40	4/9/2026
Retail Sales (YoY %)	3.20	3.20	4.50	4/1/2026
Leading Indicators (YoY %)	-3.80	-3.30	-2.70	4/15/2026
Housing Starts (000s)	1,487	1,272	1,358	4/29/2026

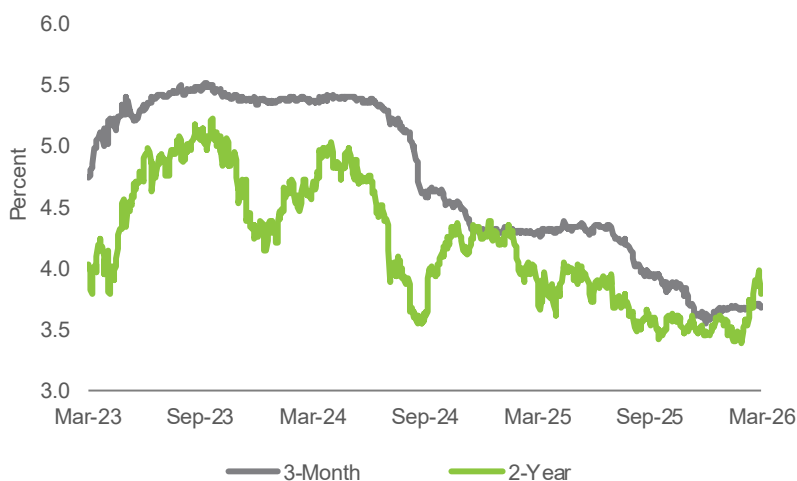
Description	Current	3-mo Ago	1-yr Ago
Fed Funds (%)	3.75	3.75	4.50
3-Mo U.S. Treasury Bill	3.68	3.63	4.30
6-Mo U.S. Treasury Bill	3.70	3.61	4.23
USD O/N Govt. Repo	3.73	3.89	4.52
U.S. 30-Day Comm Paper*	3.71	3.66	4.31
U.S. 90-Day Comm Paper*	3.86	3.76	4.33

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

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

Charts & Tables - continued

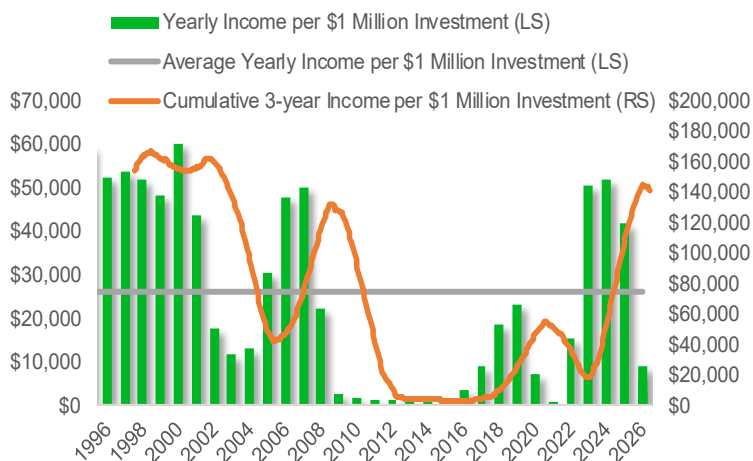
Treasury Market



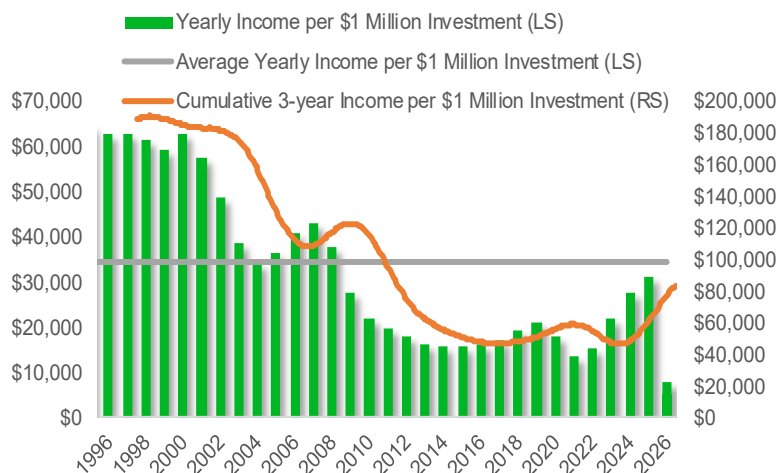
Maturity	Yield Curve (%)	Change in Yield Curve (basis points)		
		1-Mo Ago	3-Mo Ago	1-Yr Ago
1-Mo	3.69	2	10	-61
3-Mo	3.68	2	4	-62
6-Mo	3.70	8	9	-53
12-Mo	3.66	18	19	-37
2-Yr	3.80	42	32	-9
3-Yr	3.82	44	28	-6
5-Yr	3.94	44	22	-1
7-Yr	4.13	43	19	6
10-Yr	4.32	38	15	11
20-Yr	4.91	36	12	31
30-Yr	4.91	30	7	34

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

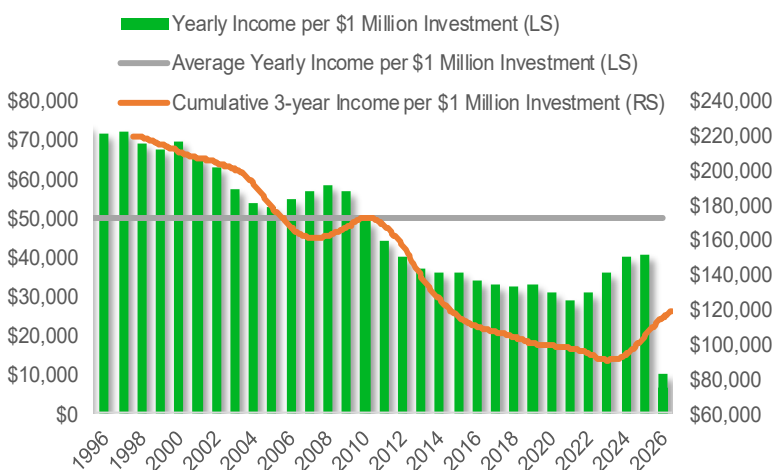
Bloomberg U.S. 3 Month Treasury Bill Index



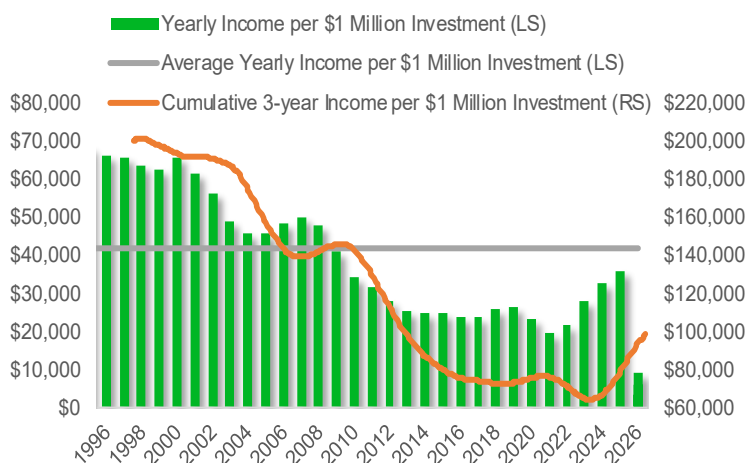
Bloomberg U.S. Treasury 1-5 Year Index



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



Bloomberg U.S. Intermediate Government/Credit Index



Talking Points



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