



Talking Points

Commentary

For the month ended May 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 should provide an offset to headwinds impacting U.S. growth (real GDP) in 2026 related to supply disruptions within the energy and agriculture sectors and higher costs due to the Middle East conflict. Uncertainty remains elevated around the impact to future U.S. and global growth expectations the longer the conflict remains unresolved. The labor market will remain soft, and inflation should remain above the 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.

- Headline U.S. GDP expanded 1.6% on a SAAR basis in Q1 2026, vs 0.5% in the prior quarter. Consumer spending ebbed modestly compared to prior quarters while fixed investment remained robust amidst significant Artificial Intelligence (AI) investment in the U.S. economy. Government spending contributed mechanically due to the reversal of shutdown effects from the prior quarter.
- The FOMC's federal funds target range is 3.50%-3.75%. While the FOMC retained an easing bias in the April statement, multiple dissents to its inclusion and an increase in FOMC members voicing concerns around a reacceleration of inflation impacted by the Middle East conflict have increased uncertainty around the future policy path.
- Treasury yields increased in May amid continued elevated oil prices and geopolitical uncertainty stemming from the Middle East conflict. The yield curve continued to bear flatten over the month, with a lack of a terminal point to the conflict raising uncertainty around the direction of monetary policy later this year.
- Corporate bond spreads tightened in May as markets reacted favorably to deescalation of the Middle East conflict and strong corporate earnings. Concerns around AI-related disruption, potential weakness in certain sectors of private credit, and supply disruptions from the Middle East conflict remain a focus.

Focal Points

Investment Professionals:

Dennis Woessner, CFA, CAIA
Vice President & Director

Russell Wald, CFA
Vice President

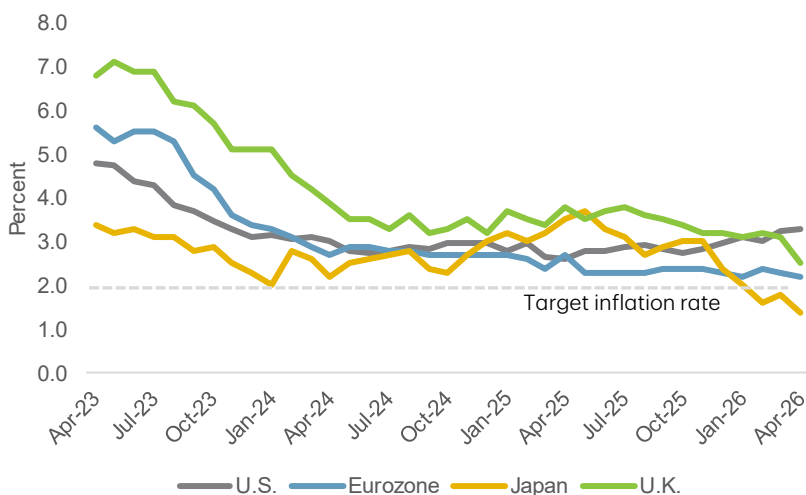
Macro Update

- Headline U.S. GDP expanded 1.6% on a SAAR basis in Q1 2026, vs 0.5% in the prior quarter. Consumer spending ebbed modestly compared to prior quarters while fixed investment remained robust amidst significant AI investment in the U.S. economy. Government spending contributed mechanically due to the reversal of shutdown effects from the prior quarter.
- The impact of the Middle East conflict appears likely to be a significant offset to positive fiscal impulse of the One Big Beautiful Bill Act as higher energy prices feed through the economy. Significantly higher energy-related costs have increased inflation, lowered economic growth projections, led central banks to contemplate monetary tightening, and increased interest rates. 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 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.; May 31, 2026

Headline inflation in the U.S. and most major economies remain above target levels. US inflation is increasing 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 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.

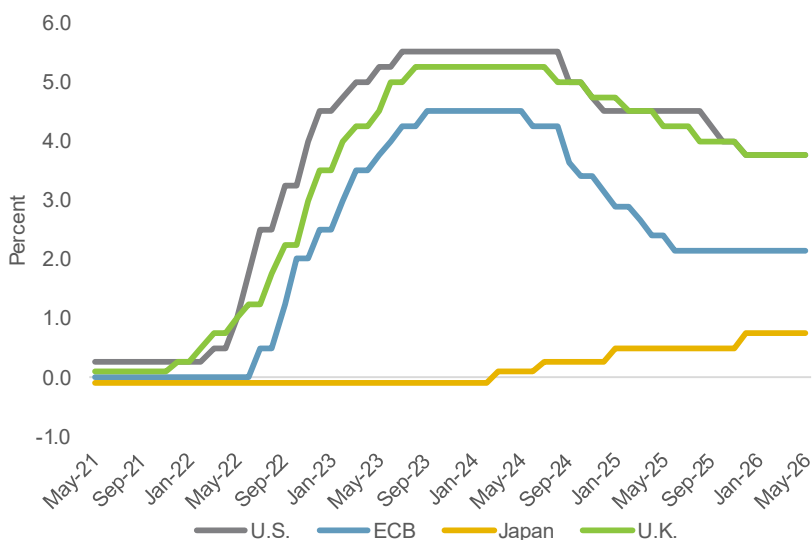
U.S. Central Bank Update

- The FOMC has maintained its policy rate range at 3.50%-3.75%. Uncertainty around the future path of monetary policy has increased as a resolution to the Middle East conflict has proved elusive.
- FOMC members have increasingly expressed concern at the level and potential reacceleration of inflation due to supply disruptions from the continued conflict in the Middle East.
- Kevin Warsh has been sworn in as the new FOMC chair. He inherits a committee divided due to the uncertain magnitude of the impacts on growth and inflation.

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, this outcome is highly uncertain due to the Trump administration's trade and fiscal policies, and uncertainty around the duration and magnitude of impact from the Middle East conflict.
- 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.; May 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 April. 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).

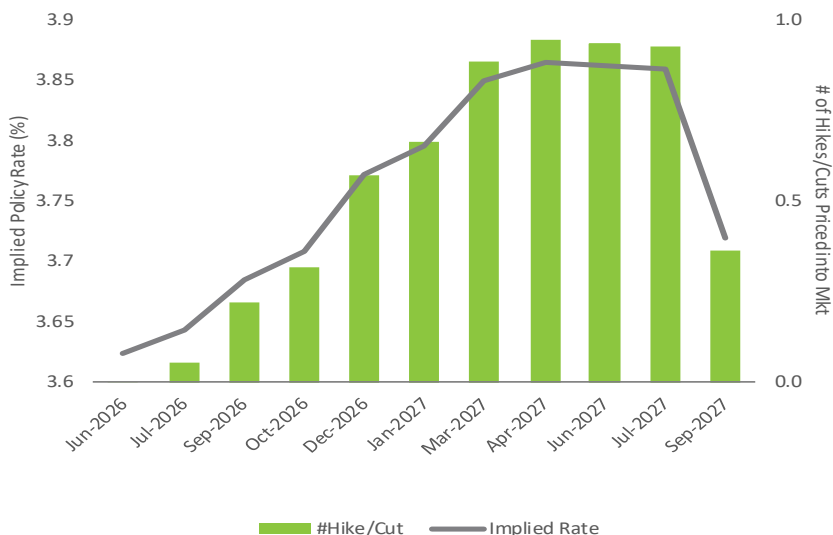
Cash/Short-term Market Update

- The short end of the yield curve bear steepened in May as investors recalibrated their inflation outlook (higher inflation) and FOMC policy outlooks (potential rate increase in 2026) due to the Middle East conflict.
- During May, short-term credit spreads tightened 7 basis points (bps), to 46 bps, primarily due to a de-escalation in Middle East tail risk and strong technical demand. The all-in yield on this cohort increased 3bps during the month to 4.48%. Yields remain attractive and corporate fundamentals are solid.
- Prime money fund assets decreased \$11.2 billion during the 3-month period ending May 2026. Total assets are \$1.22 trillion (up 7.2% 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.; May 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 increase from 3.62% to 3.77% 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.; May 31, 2026

At 46 bps, the index OAS tightened 7 bps from last month end. Year-over-year, the index OAS is 11 bps tighter. Factors which may benefit spreads are trend GDP growth outlook, solid fundamentals, and attractive yields. 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.

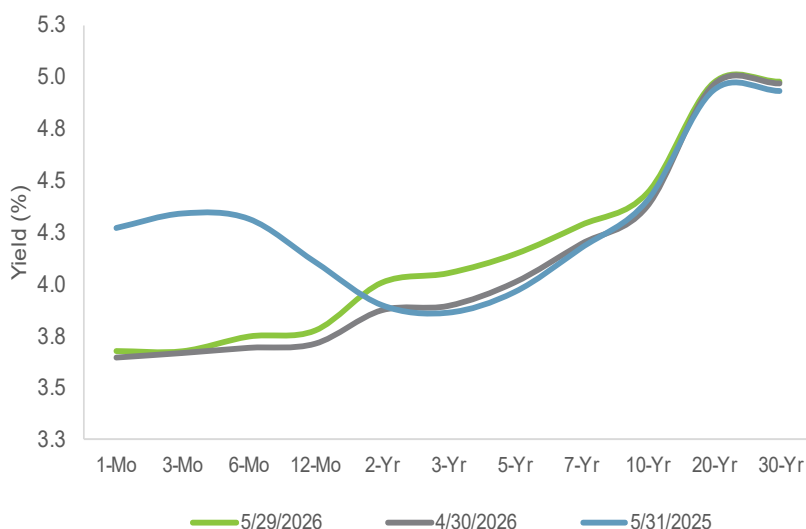
U.S. Treasury Market Update

- Treasury yields increased in May amid elevated 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 and possible increase to the policy rate. This change has 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



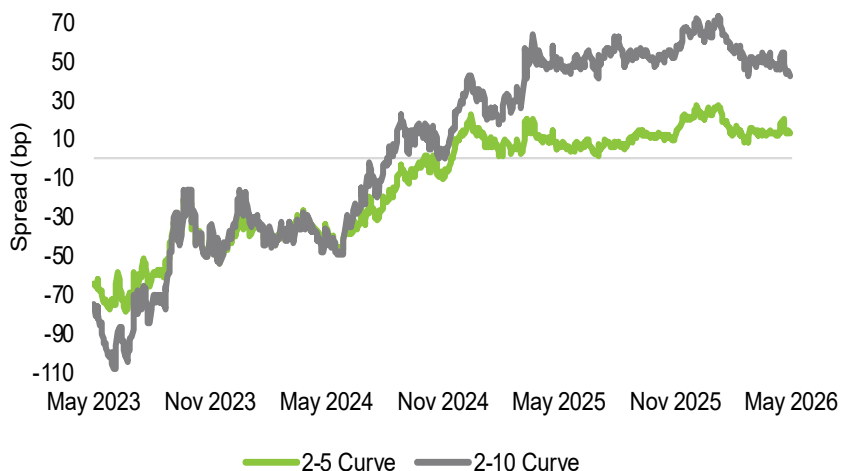
Source: Bloomberg Financial L.P.; May 31, 2026

Treasury yields increased during May. The yield spread between 2- and 30-year maturities decreased 12 bps, to 107 bps. The yield gap between the 3-month T-Bill and 10-year Treasury at 75 bps, is 6 bps steeper since last month end.

We expect yields to be range-bound at current levels as labor demand remains soft while economic growth remains solid and inflation sticky. Stimulative fiscal policy and less restrictive monetary policy will 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.; May 31, 2026

Yields in the belly of the Treasury curve increased during the month as the FOMC continued to lean modestly hawkish with debate around the future path of the policy rate increasing. Additionally, still high oil prices and geopolitical uncertainty stemming from the Middle East conflict are impacting Treasury curves. The 2s10s curve decreased 7 bps, to 43 bps. The 2s5s curve, at 13 bps, was unchanged.

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

Investment Grade Credit Market Update

- Corporate bond spreads decreased 7 bps, to 72 bps, and the credit curve was little changed relative to last month as investors remained wary of risks from the Middle East conflict alongside record corporate bond issuance. The yield on the Corporate Index declined 1 bp to 5.13% 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

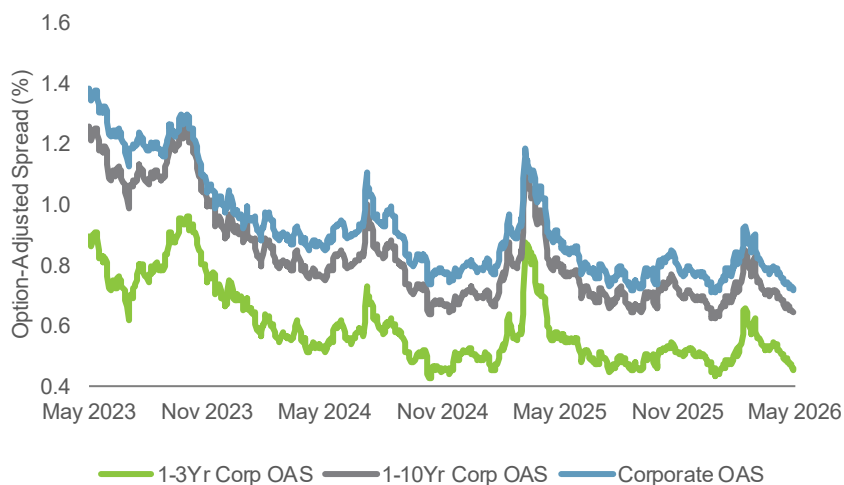


Source: Bloomberg Financial L.P.; May 31, 2026

For the month, corporate bond issuance was \$180 billion, 13% higher from the same period last year. Year-to-date issuance is 25% higher than the same period last year. The cumulative 12-month change is 22%. The spread on the corporate bond index, at 72 bps, is 7 bps tighter for the month.

Year-to-Date (YTD) corporate bond issuance is \$1.039 trillion – a record for the first 5 months. 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.; May 31, 2026

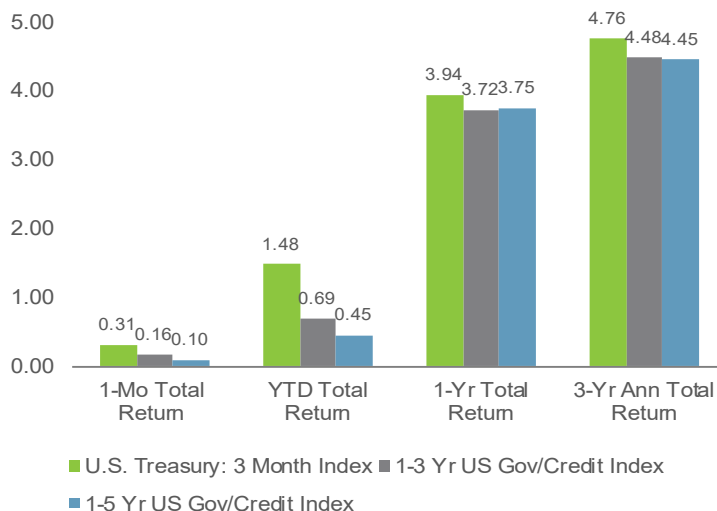
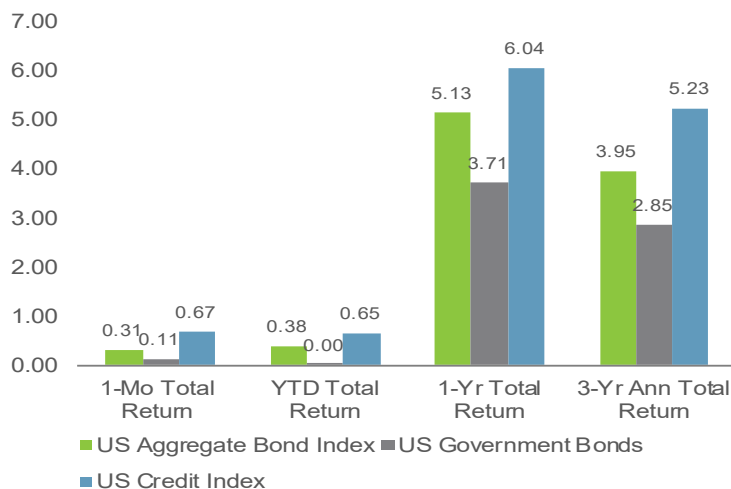
The Bloomberg U.S. Corporate Bond Index spread is 16 bps tighter during the past 12-months. Relatively attractive yields and record issuance continue to be two key themes within this sector. Factors which may benefit future spreads are trend GDP growth outlook, solid fundamentals, and attractive, elevated 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 7 bps tighter since last month end, currently 72 bps. The 1-10-year corporate bond index OAS, at 65 bps, is 6 bps tighter while the 1-3-year corporate bond index is 7 bps tighter, 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	6/17/2026
CPI (YoY %)	3.80	2.40	2.30	6/10/2026
PCE (YoY %)	3.80	2.90	2.30	6/25/2026
Unemployment Rate (%)	4.30	4.30	4.20	6/5/2026
GDP (YoY %)	2.60	2.00	2.00	6/25/2026
Retail Sales (YoY %)	4.90	3.30	5.00	6/17/2026
Leading Indicators (YoY %)	-1.70	-3.70	-4.30	6/18/2026
Housing Starts (000s)	1,465	1,385	1,400	6/16/2026

Description	Current	3-mo Ago	1-yr Ago
Fed Funds (%)	3.75	3.75	4.50
3-Mo U.S. Treasury Bill	3.68	3.66	4.34
6-Mo U.S. Treasury Bill	3.75	3.62	4.32
USD O/N Govt. Repo	3.65	3.71	4.34
U.S. 30-Day Comm Paper*	3.67	3.66	4.35
U.S. 90-Day Comm Paper*	3.78	3.70	4.37

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

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

Charts & Tables - continued

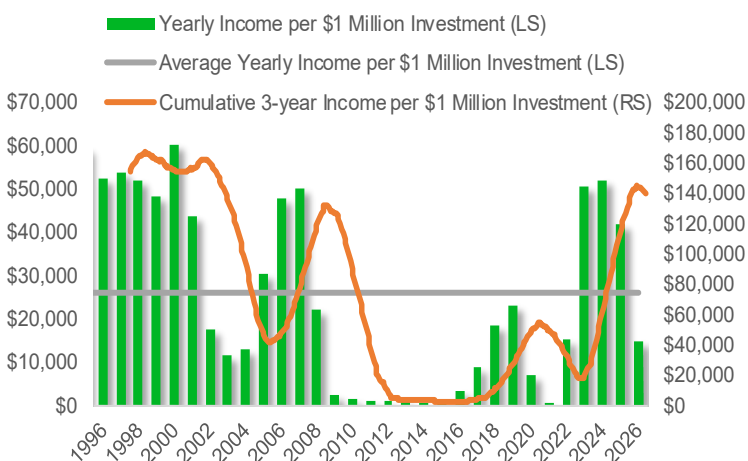
Treasury Market



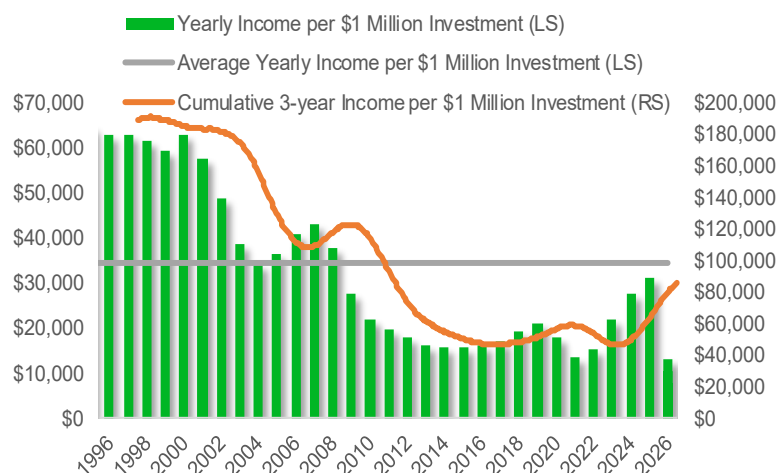
Change in Yield Curve (basis points)				
Maturity	Yield Curve (%)	1-Mo Ago	3-Mo Ago	1-Yr Ago
1-Mo	3.68	3	0	-60
3-Mo	3.68	1	1	-67
6-Mo	3.75	6	12	-57
12-Mo	3.78	6	30	-33
2-Yr	4.01	13	63	10
3-Yr	4.05	16	67	19
5-Yr	4.14	14	64	18
7-Yr	4.28	9	58	11
10-Yr	4.44	7	50	3
20-Yr	4.97	1	42	3
30-Yr	4.97	1	36	4

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

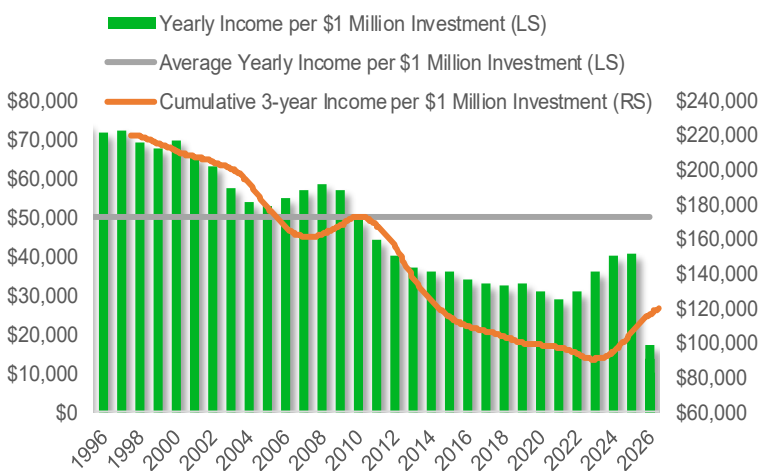
Bloomberg U.S. 3 Month Treasury Bill Index



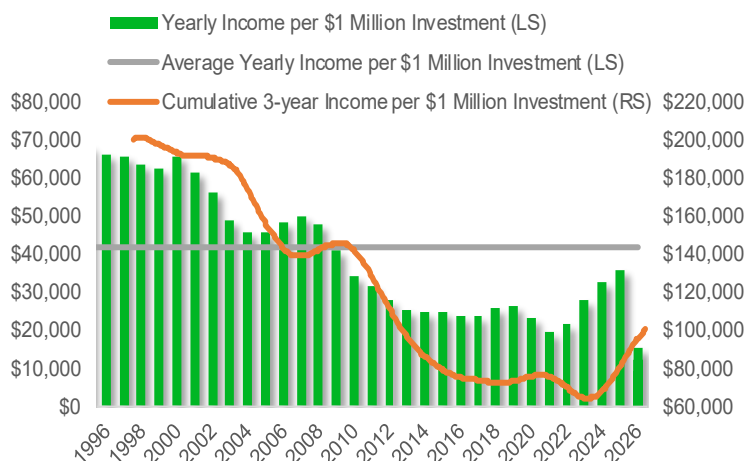
Bloomberg U.S. Treasury 1-5 Year Index



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



Bloomberg U.S. Intermediate Government/Credit Index



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	YIELD TO WORST	YEARS TO MATURITY	DURATION	QUALITY	NUMBER OF HOLDINGS	MINIMUM ACCOUNT SIZE	YIELD TO WORST	YEARS TO MATURITY	DURATION	QUALITY	NUMBER OF HOLDINGS	MINIMUM ACCOUNT SIZE	YIELD TO WORST	YEARS TO MATURITY	DURATION	QUALITY	NUMBER OF HOLDINGS	
	\$100,000	4.00%	2.0	1.9	AA1	8	\$100,000	4.05%	3.0	2.7	AA1	17	\$100,000	4.41%	3.1	2.8	A2	46	
	-	4.00%	2.0	1.9	AA1	96	-	4.04%	2.8	2.6	AA1	154	-	4.62%	3.0	2.7	A3	3,301	

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	YIELD TO WORST	YEARS TO MATURITY	DURATION	QUALITY	NUMBER OF HOLDINGS	MINIMUM ACCOUNT SIZE	YIELD TO WORST	YEARS TO MATURITY	DURATION	QUALITY	NUMBER OF HOLDINGS
	\$100,000	4.20%	5.5	4.8	AA1	36	\$100,000	4.63%	5.6	4.7	AA2	49
	-	4.11%	4.0	3.6	#N/	199	-	4.82%	4.9	4.1	#N	5,613

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	YIELD TO WORST	YEARS TO MATURITY	DURATION	QUALITY	NUMBER OF HOLDINGS	MINIMUM ACCOUNT SIZE	YIELD TO WORST	YEARS TO MATURITY	DURATION	QUALITY	NUMBER OF HOLDINGS	MINIMUM ACCOUNT SIZE	YIELD TO WORST	YEARS TO MATURITY	DURATION	QUALITY	NUMBER OF HOLDINGS	
	\$250,000	4.14%	2.0	1.9	AA3	54	\$250,000	4.04%	2.8	2.6	AA1	31	\$250,000	4.18%	2.9	2.6	AA3	77	
	-	4.06%	2.0	1.9	AA2	1,791	-	4.04%	2.7	2.6	AA1	437	-	4.13%	2.8	2.6	AA2	3,274	

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	YIELD TO WORST	YEARS TO MATURITY	DURATION	QUALITY	NUMBER OF HOLDINGS	MINIMUM ACCOUNT SIZE	YIELD TO WORST	YEARS TO MATURITY	DURATION	QUALITY	NUMBER OF HOLDINGS	MINIMUM ACCOUNT SIZE	YIELD TO WORST	YEARS TO MATURITY	DURATION	QUALITY	NUMBER OF HOLDINGS	
	\$250,000	4.10%	4.0	3.6	AA1	61	\$250,000	4.25%	4.2	3.7	AA2	99	\$250,000	4.36%	4.3	3.8	A1	138	
	-	4.11%	4.0	3.6	AA1	483	-	4.22%	4.2	3.7	AA1	3,525	-	4.33%	4.3	3.7	AA2	6,619	

Institutional Model	TD Core Bond Managed Account Institutional		Bloomberg U.S. Aggregate Bond Index	
	MINIMUM ACCOUNT SIZE	YIELD TO WORST	YEARS TO MATURITY	DURATION
	\$10,000,000	4.75%	7.7	5.9
	-	4.67%	8.2	5.9

Talking Points



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