



Talking Points

# Commentary

For the month ended November 2025

**Nov**<sup>2025</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. 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 policy uncertainty with respect to trade and tariffs has passed. The delayed release of tier-1 economic data such as employment, housing, GDP, and retail sales due to the federal government shutdown (which ended November 13) keeps economic uncertainty elevated. We do know that the U.S. labor market has deteriorated and is expected to remain weak into 2026. This provides the Federal Open Market Committee (FOMC) with a valid case to reduce its policy rate range to 3.50% - 3.75% in 2025. If the labor market weakens further, we expect additional cuts in 2026 even with inflation running above the FOMC's target. 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.

- The first release of 3Q 2025 U.S. GDP will occur on December 23. The closure of the federal government will negatively impact 4Q 2025 GDP. This hit to growth will mostly, but not entirely, be reversed in 1Q 2026, according to the Congressional Budget Office.
- The current federal funds target range is 3.75%-4.00%. The FOMC is more concerned with downside risks to the labor market than inflation, though the committee seems less unified in this regard. The median year-end policy rate forecast is 3.6%, which reflects one more cut in 2025. Amid increased uncertainty due to lack of timely data, the FOMC expects, above-target inflation, a weaker labor market, and sub-trend economic growth in 2025 and 2026.
- Treasury yields mostly fell, and the yield curve steepened as delayed government-processed economic data started being released in November. Volatility in risk assets picked up as markets focused on the rise of circular business arrangements between many of the key companies that have been driving the AI revolution.
- Corporate bond spreads widened in November but remain near multi-decade lows while attractive yields offer the potential for strong income generation.

## Investment Professionals:

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

**Russell Wald**, CFA  
Vice President

**Focal Points**

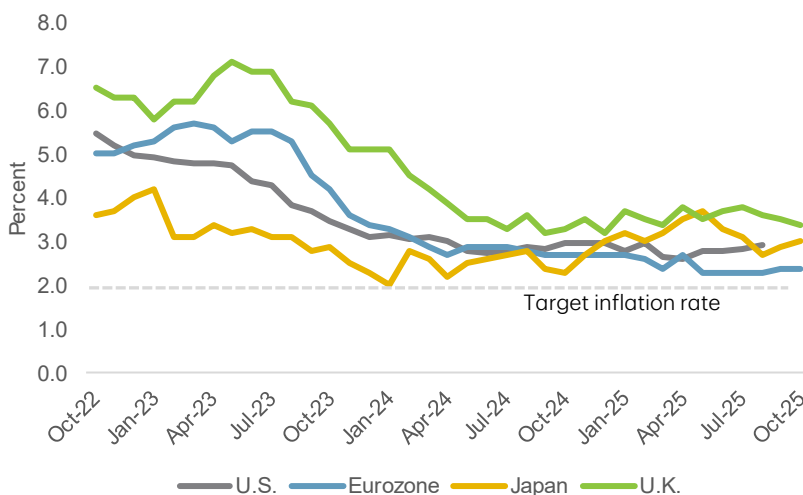
## Macro Update

- The first release of 3Q 2025 U.S. GDP will occur on December 23. Consensus estimate is for 2.9% Q/Q SAAR, according to Bloomberg.
- The negative impact from the federal government shutdown to the U.S. economy in 4Q 2025 will mostly, but not entirely, be reversed in 1Q 2026. The closure results in a permanent loss of about 0.04% in real GDP, according to the Congressional Budget Office CBO. This assessment is based on a shutdown period of six weeks.
- We expect inflation will remain elevated and the labor market will weaken during the remaining part of this year.

### Long-Term Views:

- U.S. growth will be positive 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 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.; November 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.

Note: U.S. inflation data for October has been delayed due to the federal government shutdown.

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

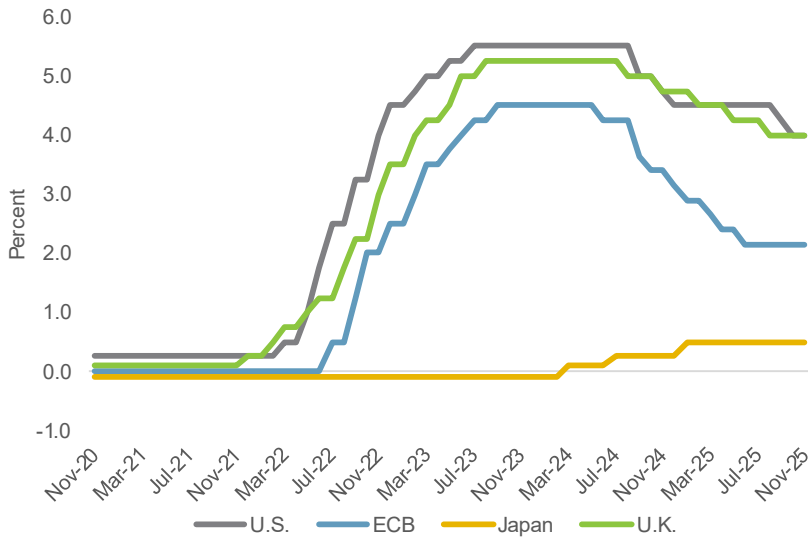
## U.S. Central Bank Update

- The current federal funds target range is 3.75%-4.00%. FOMC minutes indicate that participants were divided on the October rate cut and have strongly differing views about the December decision; however, recent Fed speak indicate a bias toward a December 10 rate cut.
- The median policy rate forecast is 3.6%, which reflects one more cut in 2025. Additionally, the balance of risks still resides with the labor market not inflation.
- 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 risks to the labor market remain elevated.

### 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 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.; November 30, 2025

Major Central Bank policies are beginning to diverge as global economic conditions deviate around growth and inflation conditions. Central Banks remain data dependent when determining future policy decisions.

The Federal Reserve reduced the federal funds rate by 0.25% in October with another cut expected by the end of 2025. The trajectory of rate cuts through 2026 will likely be shallower as the U.S. economy continues to expand while the policy rate becomes less restrictive.

The upper bound of FOMC's policy range is now 4.00% (as shown in graph).

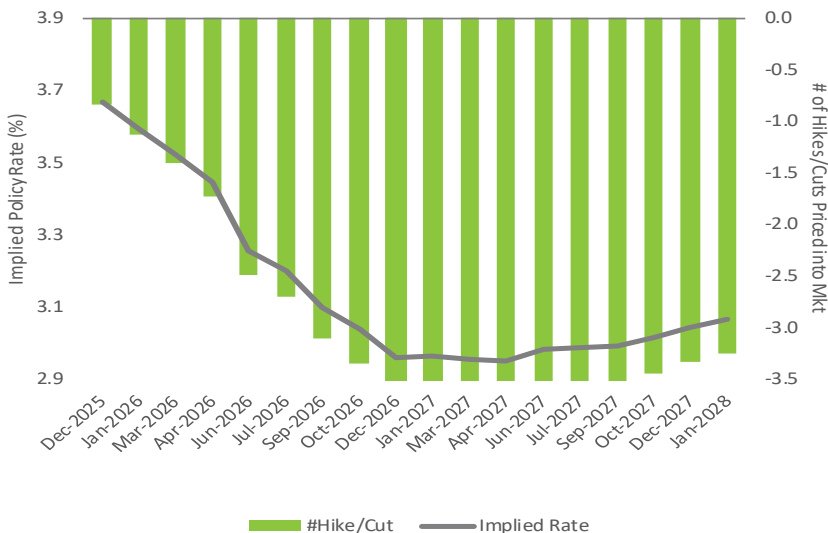
## Cash/Short-term Market Update

- Short-end Treasury yields decreased during the month as an additional policy rate cut by the FOMC is expected in December. Economic data show a relatively weak labor market and above-target inflation. Tariff uncertainty will negatively impact household and business spending into 2H 2025 which may contribute to a softening macro economic setting.
- Short-term credit spreads widened 2 bps, to 51 bps, during November. Investor demand remains strong as yields are attractive and corporate fundamentals remain solid.
- Prime money fund assets increased \$14.6 billion during the 3-month period ending November 2025. Total assets are \$1.2 trillion (up 13.7% 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.; November 30, 2025

Three rate cuts are expected through 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 along a slightly steeper path relative to last month due to recent dovish Fed speak. The FOMC expects elevated inflation, slightly below-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.; November 30, 2025

At 51 bps, the index OAS is 2 bps wider from last month end. Year-over-year, the index OAS is 6 bps wider. 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 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 continues easing its policy rate and spreads remain near multiyear tight levels.

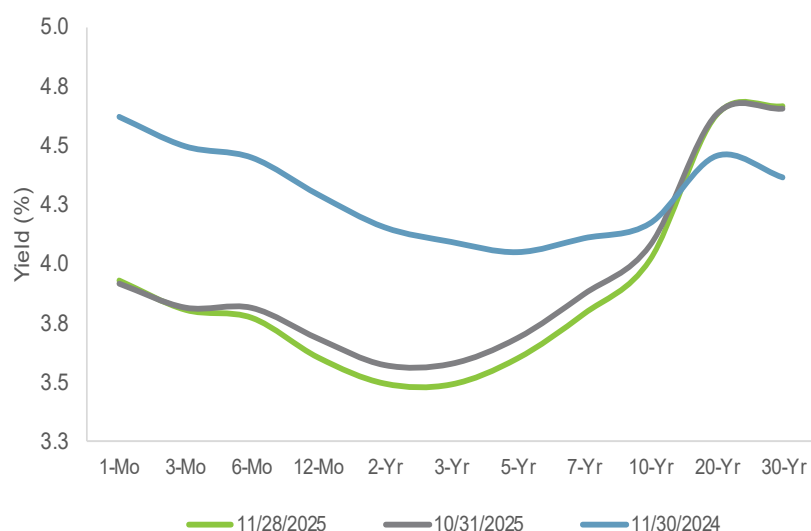
## U.S. Treasury Market Update

- U.S. Treasury yields mostly decreased as the yield curve bull-twisted. Data indicate household and business spending remained resilient during a weaker labor market and higher effective tariff rates. We expect these two factors will reduce economic growth in 2H 2025 as the effective tariff rate increases while household consumption wanes.
- 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

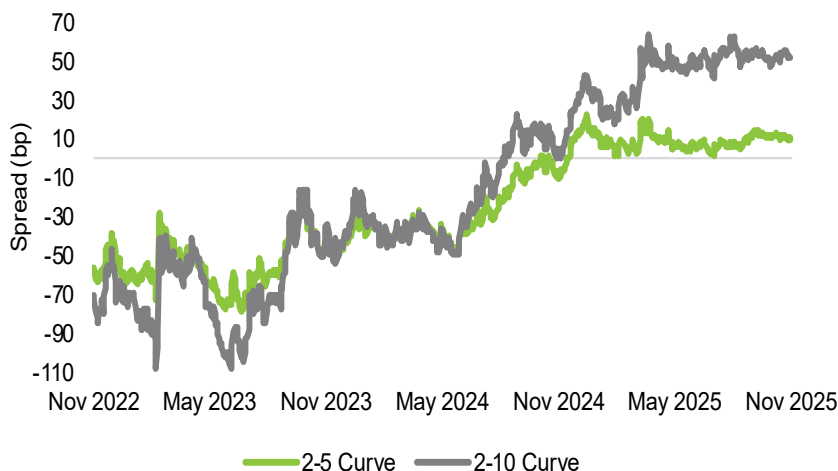


Source: Bloomberg Financial L.P.; November 30, 2025

Treasury yields mostly decreased during November. The spread between 2- and 30-year maturities increased 9 bps, to 117 bps. The yield gap between the 3-month T-Bill and 10-year Treasury is 21 bps, 5 bps flatter since last month end.

We expect yields to be range-bound at current levels as labor demand weakens, and economic growth slows. Stimulative fiscal policy will contribute to growth in 2026 which may push yields higher, though potential for tariffs to raise fiscal revenues and dampen consumption could constrain long term yields. The FOMC's policy framework is becoming less restrictive due to recent policy rate cuts. 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.; November 30, 2025

Yields in the belly of the Treasury curve declined during the month. The FOMC is expected to cut its policy rate by 0.25% in December due to labor market weakness, while the economy remains resilient and inflation remains above target.

The 2s10s curve increased 2 bps, to 52 bps. The 2s5s curve, at 11 bps, decreased 1 bp.

Greater fiscal deficits may pressure term premiums higher over the medium and longer term. Investors maintained focus on indicators pointing to weaker economic growth and sticky inflation outlooks.

## Investment Grade Credit Market Update

- Corporate bond spreads increased 2 bps, to 80 bps, and the credit curve flattened relative to last month. Investor demand remained robust during a very large November supply month. Corporate bond yields moved lower 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.; November 30, 2025

For the month, corporate bond issuance was \$142.2 billion, a 48% increase from the same period last year. The cumulative 12-month change is 13%. The spread on the corporate bond index, at 80 bps, is 2 bps wider on the month.

YTD corporate bond issuance is \$1.69 trillion, exceeding this year's forecast of \$1.55 trillion. Expected issuance for 2026 is ~\$1.85 trillion with the YoY increase fueled by AI-related investment from hyperscalers such as Google, Amazon, and Oracle while bank issuance is expected to decline.

## Corporate Spreads by Maturity



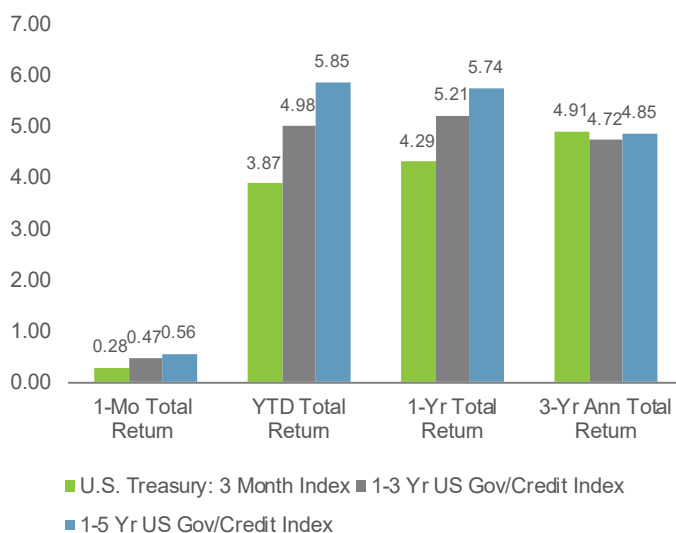
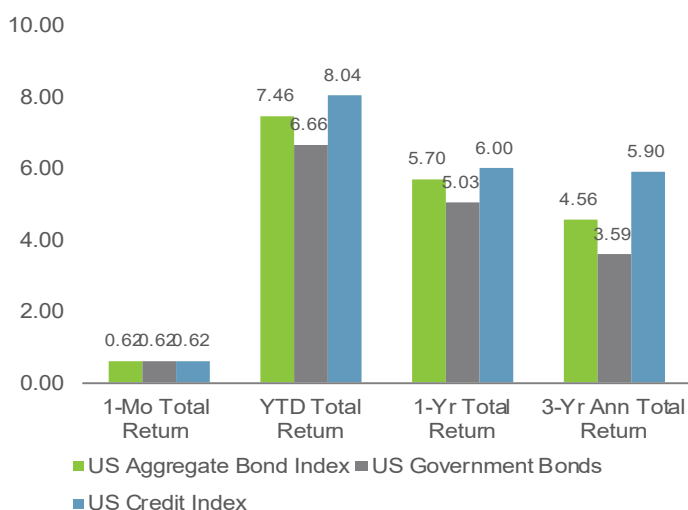
Source: Bloomberg Financial L.P.; November 30, 2025

The Bloomberg U.S. Corporate Bond Index spread is 3 bps wider 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 2 bps wider since last month end, currently 80 bps. The 1-10- year corporate bond index OAS, at 73 bps, is 3 bps wider 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 (%)	4.00	4.50	4.75	12/10/2025
CPI (YoY %)	3.00	2.70	2.40	12/18/2025
PCE (YoY %)	2.70	2.50	2.40	12/5/2025
Unemployment Rate (%)	4.40	4.10	4.10	12/16/2025
GDP (YoY %)	2.10	2.00	2.80	12/23/2025
Retail Sales (YoY %)	4.30	4.40	2.00	12/8/2025
Leading Indicators (YoY %)	-3.60	-3.90	-4.60	12/1/2025
Housing Starts (000s)	1,307	1,282	1,391	12/1/2025

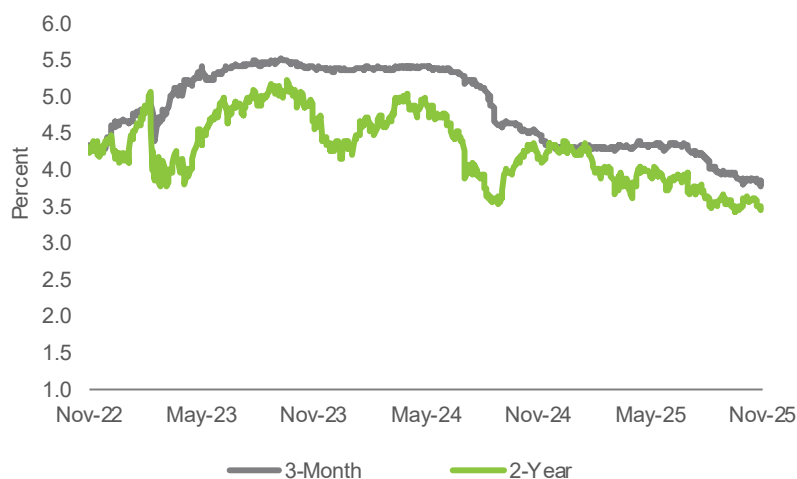
Description	Current	3-mo Ago	1-yr Ago
Fed Funds (%)	4.00	4.50	4.75
3-Mo U.S. Treasury Bill	3.80	4.15	4.49
6-Mo U.S. Treasury Bill	3.77	3.97	4.45
USD O/N Govt. Repo	4.13	4.37	4.65
U.S. 30-Day Comm Paper*	3.86	4.26	4.54
U.S. 90-Day Comm Paper*	3.90	4.21	4.53

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

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

# Charts & Tables - continued

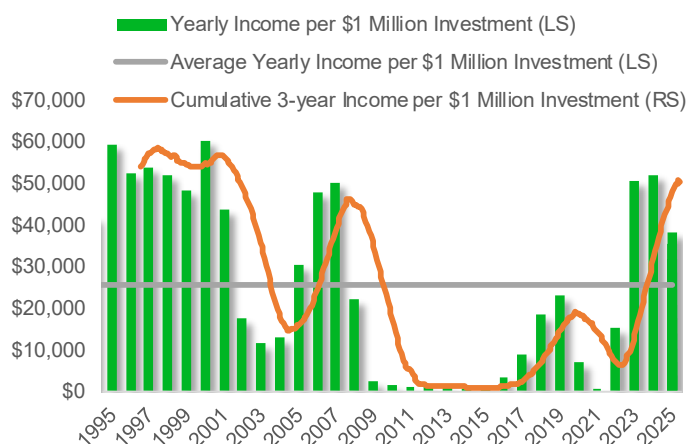
## Treasury Market



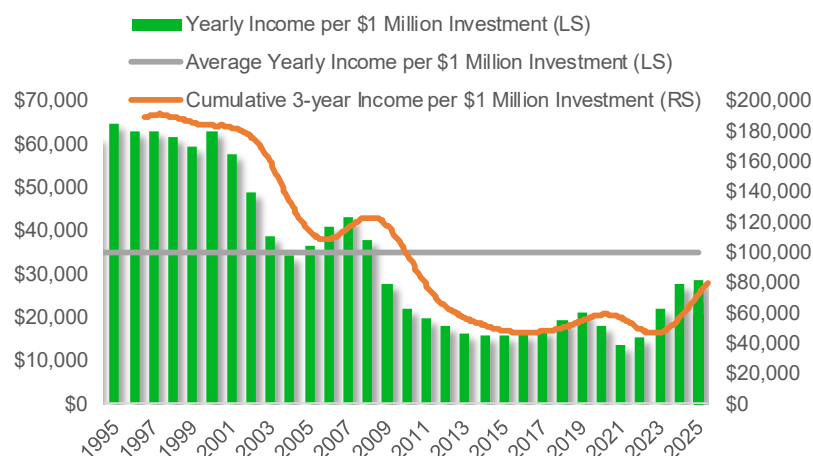
Maturity	Yield Curve (%)	Change in Yield Curve (basis points)		
		1-Mo Ago	3-Mo Ago	1-Yr Ago
1-Mo	3.93	1	-39	-69
3-Mo	3.80	-1	-34	-69
6-Mo	3.77	-5	-20	-68
12-Mo	3.60	-9	-24	-69
2-Yr	3.49	-8	-13	-66
3-Yr	3.49	-9	-9	-61
5-Yr	3.60	-9	-10	-45
7-Yr	3.79	-9	-14	-32
10-Yr	4.02	-6	-22	-16
20-Yr	4.63	0	-25	17
30-Yr	4.66	1	-26	30

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

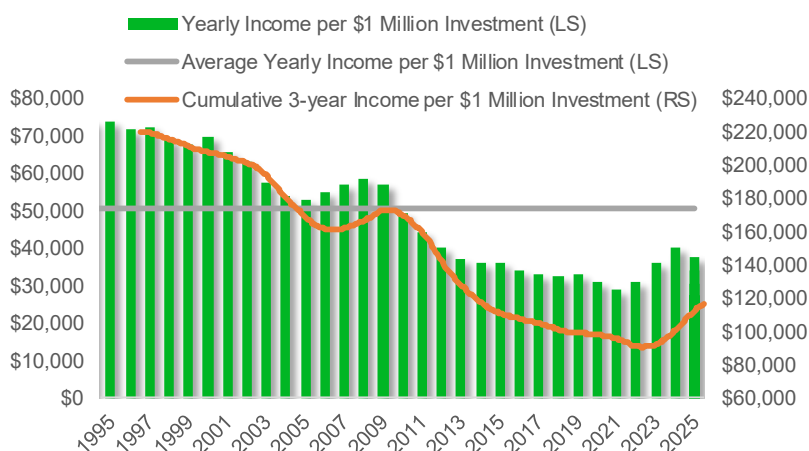
### Bloomberg U.S. 3 Month Treasury Bill Index



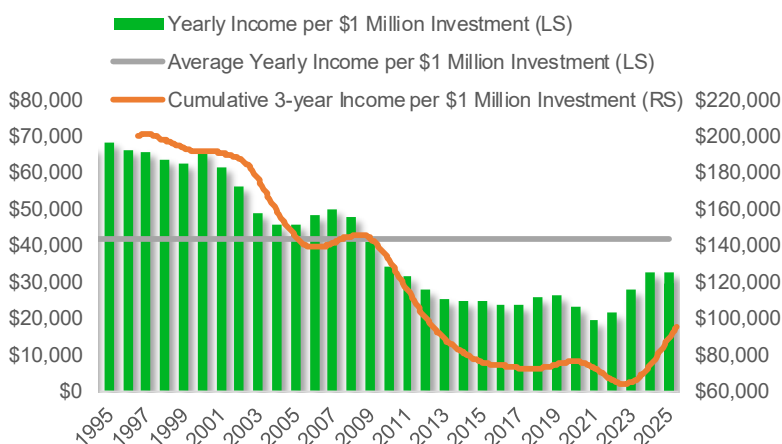
### Bloomberg U.S. Treasury 1-5 Year Index



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



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





# Talking Points



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