TD Global Investment Solutions

Talking Points

# Commentary

For the month ended October 2025

# Oct 2025

## 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; however, the duration of the federal government shutdown (which began on October 1) is preventing the release of tier-1 economic data such as employment, housing, GDP, and retail sales. The dearth of economic data has yet to weigh on financial markets. What we do know is 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 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.

## Focal Points

- The initial release of 3Q 2025 U.S. GDP report, scheduled for October 30, has been delayed due to the federal government shutdown. The closure of the federal government could reduce annualized real GDP growth in 4Q by 1.0 to 2.0 percentage points, according to the Congressional Budget Office (CBO). This assessment is based on a shutdown period of four, six, and eight weeks.

- The FOMC reduced the federal funds rate by 0.25%, to 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 fell, and the yield curve flattened in October. Tariff uncertainty and tariff-related price hikes will negatively impact real household and business spending into 2H 2025. This may allow interest rates to move lower from current levels. US-China trade policy moved back to center stage and remain a focal point for risk assets.

- Corporate bond spreads widened in October 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

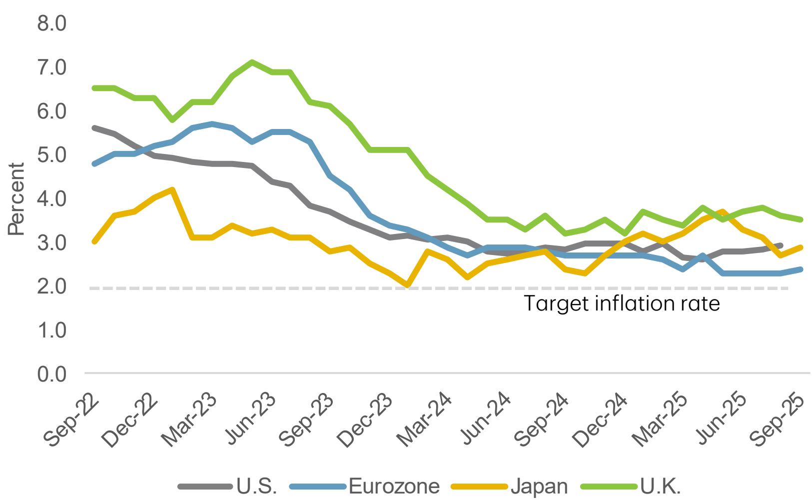
# Macro Update

- The initial release of 3Q 2025 U.S. GDP report, scheduled for October 30, has been delayed due to the federal government shutdown. The closure of the federal government (and accompanied delayed federal spending) could reduce annualized real GDP growth in Q4 by 1.0 to 2.0 percentage points, according to the Congressional Budget Office (CBO). This assessment is based on a shutdown period of four, six, and eight weeks. The negative impact to the economy will mostly, but not entirely, be reversed once the shutdown ends, according to the CBO.
- 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.; October 31, 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.

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

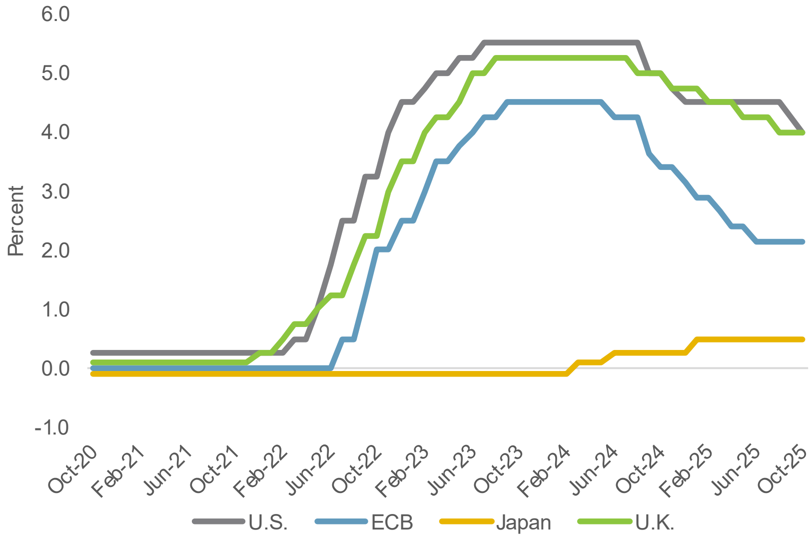
# U.S. Central Bank Update

- The FOMC reduced the federal funds rate by 0.25%, to 3.75%-4.00%, with two dissents – President Schmid favored no cut while Governor Miran wanted a 50bp cut. The median policy rate forecast is 3.6%, which reflects one more cut in 2025.
- Chair Powell commented during the press conference that "a December rate cut is far from a foregone conclusion." This statement potentially highlights the growing disagreement amongst committee members on the path of future rate cuts. 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.; October 31, 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 the FOMC cut its policy rate by 0.25%. 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 3 bps, to 49 bps, during October. Investor demand remains strong as yields are attractive and corporate fundamentals remain solid.
- Prime money fund assets increased $33.8 billion during the 3-month period ending October 2025. Total assets are $1.2 trillion (up 14.8% 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.; October 31, 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 flatter path relative to last month due to a stronger consensus growth outlook for next year. 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.; October 31, 2025

At 49 bps, the index OAS is 3 bps wider from last month end. Year-over-year, the index OAS is 3 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.

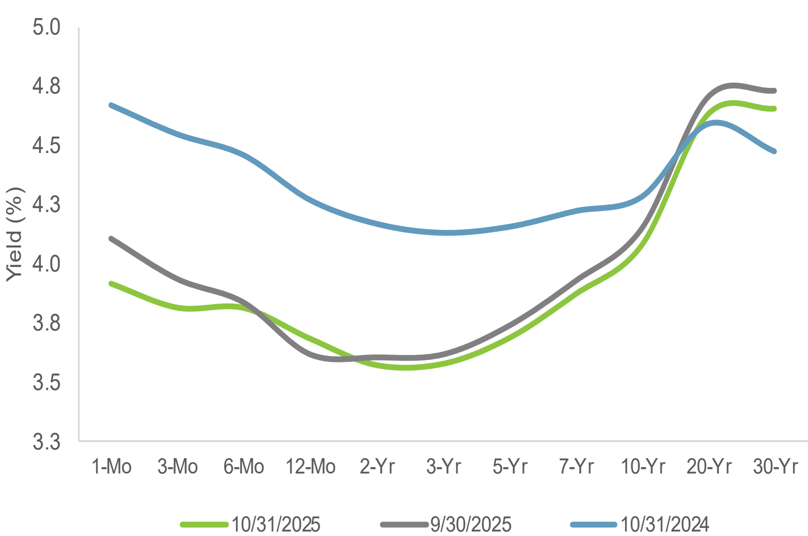
## U.S. Treasury Market Update

- U.S. Treasury yields decreased as the yield curve bull-flattened. 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

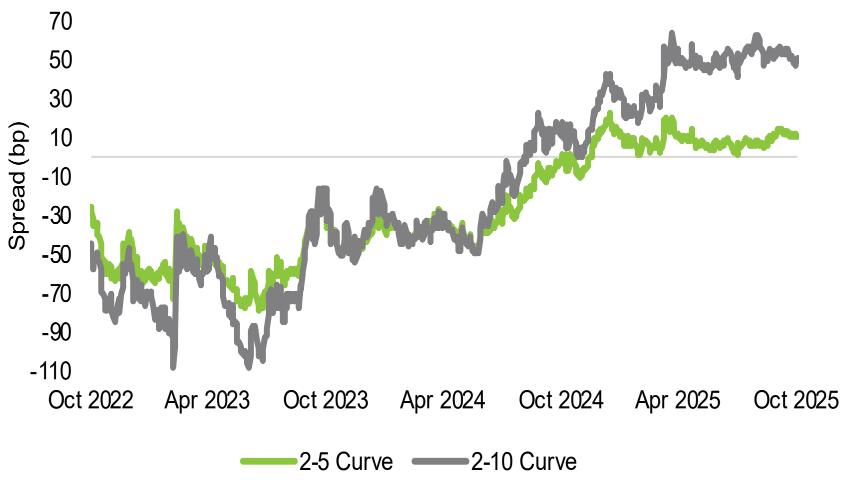



Source: Bloomberg Financial L.P.; October 31, 2025

Treasury yields decreased during October. The spread between 2- and 30-year maturities decreased 5 bps, to 108 bps. The yield gap between the 3-month T-Bill and 10-year Treasury is 26 bps, 5 bps steeper 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 later this year and through 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 restrictive but some degree of restrictiveness will be gradually removed in the coming months. 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.; October 31, 2025

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

The 2s10s curve decreased 4 bps, to 50 bps. The 2s5s curve, at 11 bps, decreased 2 bps.

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.

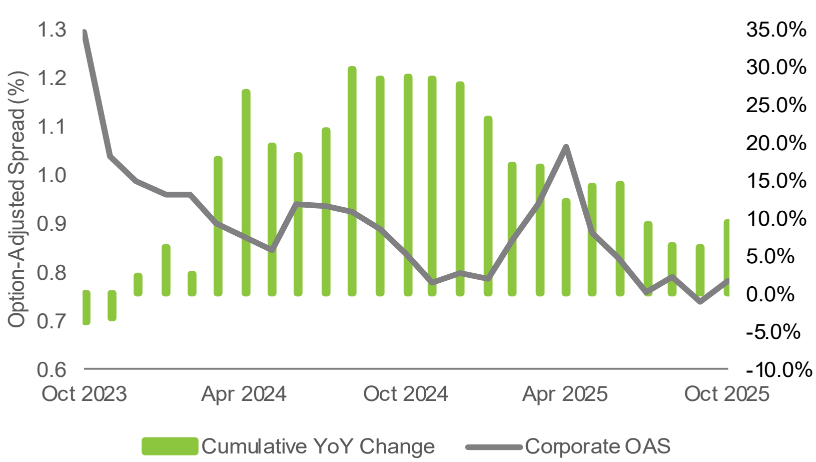
## Investment Grade Credit Market Update

- Corporate bond spreads increased 5 bps, to 78 bps, and the credit curve steepened relative to last month. Investor demand continues to be robust during a very strong October supply month. Corporate bond yields moved marginally higher during the month.
- Investors are monitoring U.S. trade policy and potential retaliatory measures 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

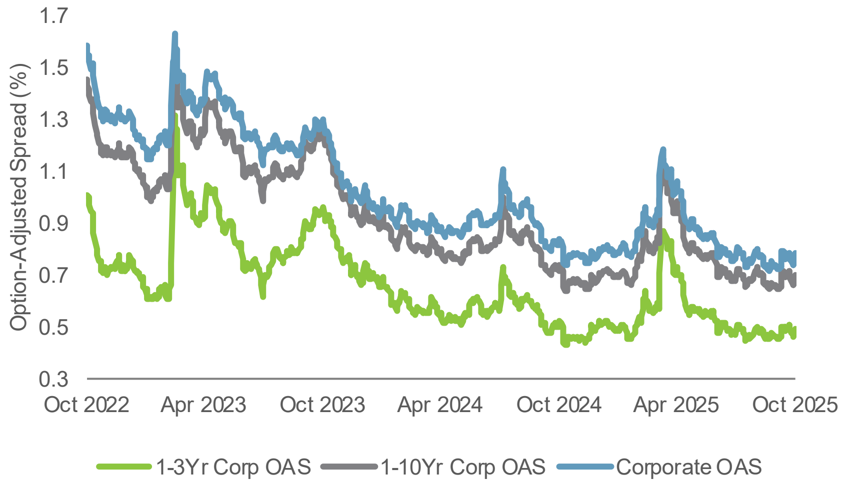



Source: Bloomberg Financial L.P.; October 31, 2025

For the month, corporate bond issuance was $158.9 billion, a 62% increase from the same period last year. The cumulative 12-month change is 9%. The spread on the corporate bond index, at 78 bps, is 5 bps wider on the month.

YTD issuance is $1.54 trillion and will exceed this year's corporate bond issuance forecast of $1.55 trillion.

# Corporate Spreads by Maturity



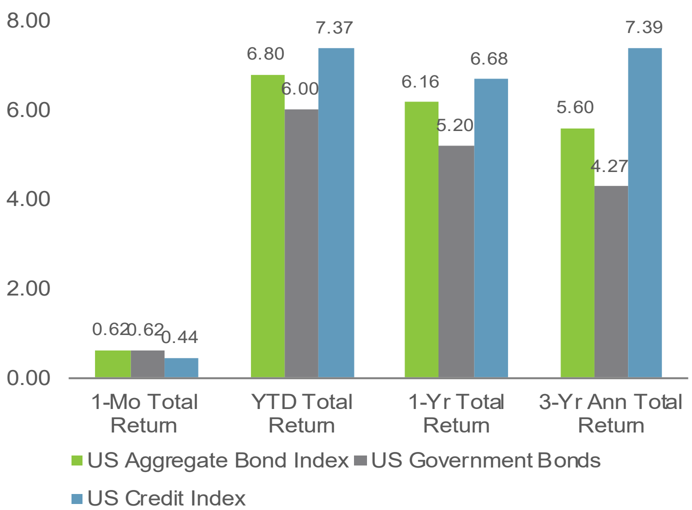

Source: Bloomberg Financial L.P.; October 31, 2025

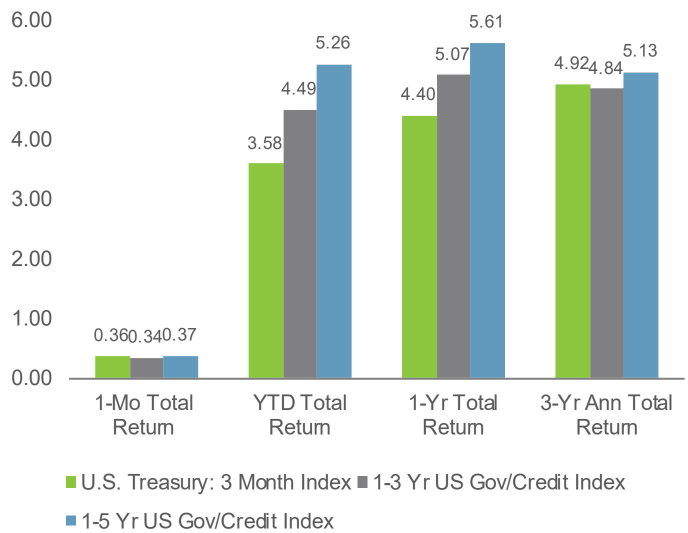
The Bloomberg U.S. Corporate Bond Index spread is 5 bps tighter during the past 12-month period. There has been strong investor demand during a period of relatively higher yields and record issuance. Factors which may benefit future spreads are trend GDP growth outlook, solid fundamentals, and an easing FOMC policy framework. Uncertainty from tariff and fiscal policies is negatively impacting spreads.

The corporate bond index OAS is 5 bps wider since last month end, currently 78 bps. The 1-10- year corporate bond index OAS, at 70 bps, is 4 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 | 5.00 | 12/10/2025 |
| CPI (YoY %) | 3.00 | 2.70 | 2.40 | 11/13/2025 |
| PCE (YoY %) | 2.70 | 2.50 | 2.40 | 11/26/2025 |
| Unemployment Rate (%) | 4.30 | 4.20 | 4.20 | 11/7/2025 |
| GDP (YoY %) | 2.10 | 2.00 | 2.80 | 11/26/2025 |
| Retail Sales (YoY %) | 5.00 | 3.40 | 1.80 | 11/14/2025 |
| Leading Indicators (YoY %) | -3.60 | -3.90 | -4.60 | 11/20/2025 |
| Housing Starts (000s) | 1,307 | 1,282 | 1,391 | 11/19/2025 |

| Description | Current | 3-mo Ago | 1-yr Ago |
|---|---|---|---|
| Fed Funds (%) | 4.00 | 4.50 | 5.00 |
| 3-Mo U.S. Treasury Bill | 3.82 | 4.34 | 4.55 |
| 6-Mo U.S. Treasury Bill | 3.82 | 4.28 | 4.46 |
| USD O/N Govt. Repo | 4.21 | 4.40 | 4.98 |
| U.S. 30-Day Comm Paper* | 3.84 | 4.31 | 4.69 |
| U.S. 90-Day Comm Paper* | 3.95 | 4.35 | 4.62 |

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

Source for all charts and tables: Bloomberg Financial L.P.; October 31, 2025

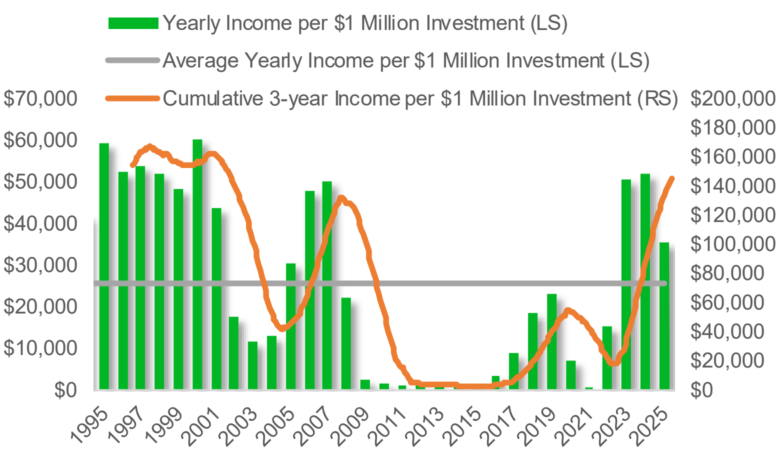
## Charts & Tables - continued

### Treasury Market

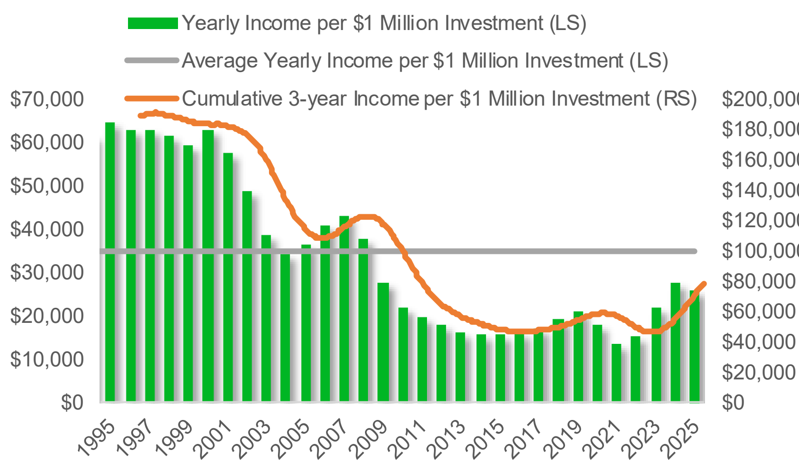

| | | Change in Yield Curve (basis points) | | |
|---|---|---|---|---|
| Maturity | Yield Curve (%) | 1-Mo Ago | 3-Mo Ago | 1-Yr Ago |
| 1-Mo | 3.92 | -19 | -44 | -75 |
| 3-Mo | 3.82 | -12 | -53 | -73 |
| 6-Mo | 3.82 | -2 | -46 | -65 |
| 12-Mo | 3.69 | 6 | -42 | -59 |
| 2-Yr | 3.58 | -3 | -38 | -60 |
| 3-Yr | 3.58 | -4 | -32 | -55 |
| 5-Yr | 3.69 | -5 | -29 | -47 |
| 7-Yr | 3.87 | -6 | -29 | -35 |
| 10-Yr | 4.08 | -7 | -30 | -21 |
| 20-Yr | 4.63 | -8 | -27 | 4 |
| 30-Yr | 4.65 | -8 | -25 | 18 |

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

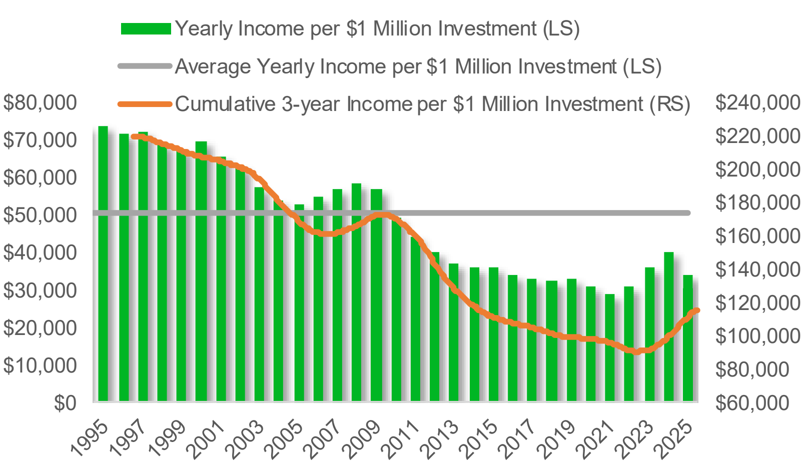
#### Bloomberg U.S. 3 Month Treasury Bill Index



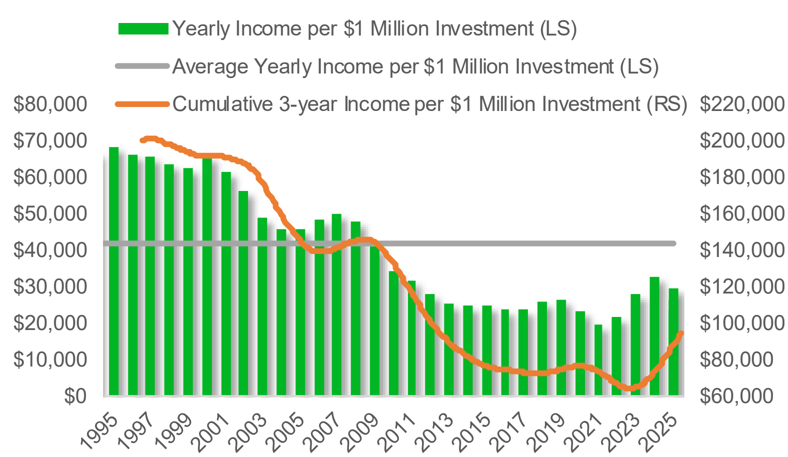

#### Bloomberg U.S. Treasury 1-5 Year Index




#### 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.; October 31, 2025

# Talking Points

**Important Disclosures:**

For institutional investors only. TD Global Investment Solutions represents TD Asset Management Inc. ("TDAM") and Epoch Investment Partners, Inc. ("TD Epoch"). TDAM and TD Epoch are affiliates and wholly owned subsidiaries of The Toronto-Dominion Bank. ®The TD logo and other TD trademarks are the property of The Toronto-Dominion Bank or its subsidiaries. The information contained herein is distributed for informational purposes only and should not be considered investment advice or a recommendation of any particular security, strategy or investment product. The information is distributed with the understanding that the recipient has sufficient knowledge and experience to be able to understand and make their own evaluation of the proposals and services described herein as well as any risks associated with such proposal or services. Nothing in this presentation constitutes legal, tax, or accounting advice. Information contained herein has been obtained from sources believed to be reliable, but not guaranteed. Certain information provided herein is based on third-party sources, and although believed to be accurate, has not been independently verified. Except as otherwise specified herein, TD Epoch is the source of all information contained in this document. TD Epoch assumes no liability for errors and omissions in the information contained herein. TD Epoch believes the information contained herein is accurate as of the date produced and submitted, but is subject to change. No assurance is made as to its continued accuracy after such date and TD Epoch has no obligation to any recipient of this document to update any of the information provided herein.



**Past Performance:** Any performance information referenced represents past performance and is not indicative of future returns. There is no guarantee that the investment objectives will be achieved.

To the extent the material presented contains information about specific companies or securities including whether they are profitable or not, they are being provided as a means of illustrating our investment thesis. Each security discussed has been selected solely for this purpose and has not been selected on the basis of performance or any performance-related criteria. Past references to specific companies or securities are not a complete list of securities selected for clients and not all securities selected for clients in the past year were profitable. The securities discussed herein may not represent an entire portfolio and in the aggregate may only represent a small percentage of a clients holdings. Clients' portfolios are actively managed and securities discussed may or may not be held in such portfolios at any given time.

**Projected or Targeted Performance:** Any projections, targets, or estimates in this presentation are forward-looking statements and are based on TD Epoch's research, analysis, and its capital markets assumptions. There can be no assurances that such projections, targets, or estimates will occur and the actual results may be materially different. Additional information about capital markets assumptions is available upon request. Other events which were not taken into account in formulating such projections, targets, or estimates may occur and significantly affect the returns or performance of any accounts and/or funds managed by TD Epoch.

**Non-US Jurisdictions:** This information is only intended for use in jurisdictions where its distribution or availability is consistent with local laws or regulations.

**Australia:** Epoch Investment Partners, Inc. (ABRN: 636409320) holds an Australian Financial Services Licence (AFS Licence No: 530587). The information contained herein is intended for wholesale clients and investors only as defined in the Corporations Act of 2001.

**United Kingdom:** Epoch Investment Partners UK, LTD is authorized and regulated by the Financial Conduct Authority of the United Kingdom (Firm Reference Number: 715988)

**South Africa:** Epoch Investment Partners, Inc. is a licensed Financial Services Provider (license number 46621) with the Financial Sector Conduct Authority.