



# Commentary

**Sep**<sup>2025</sup>

For the month ended September 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 policy uncertainty has passed as trade agreements/frameworks continue to be realized, mitigating the more extreme tariffs, and the signing of the One Big Beautiful Bill into law. 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 an additional 0.25% in 2025. If the labor market weakens further, we expect additional cuts in 2025 and 2026 even with inflation running well above the FOMC's target. Policy uncertainty remains high, however. 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

- 2Q 2025 U.S. real GDP was revised up +0.5%, to 3.8% as household consumption strongly recovered from 1Q weakness. Net exports more than offset the negative print in inventories. Real final sales to private domestic purchasers (core GDP in effect) was revised to a solid 2.9%, from 1.9%, due to upward revisions in household and business spending.
- The FOMC reduced the federal funds rate by 0.25%, to 4.0%-4.25%. The FOMC is more concerned with downside risks to the labor market than inflation. The median year-end policy rate forecast is 3.6%, which reflects two more cuts in 2025. Amid the uncertainty, 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 flattened in September. Timely economic data indicate a weakening labor market and elevated inflation. 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. Political pressure around Fed independence may increase interest rate volatility.
- Corporate bond spreads narrowed in September and remain at the lower end of their long-term range while attractive yields offer the potential for strong income generation.

## Investment Professionals:

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

**Russell Wald**, CFA  
Vice President

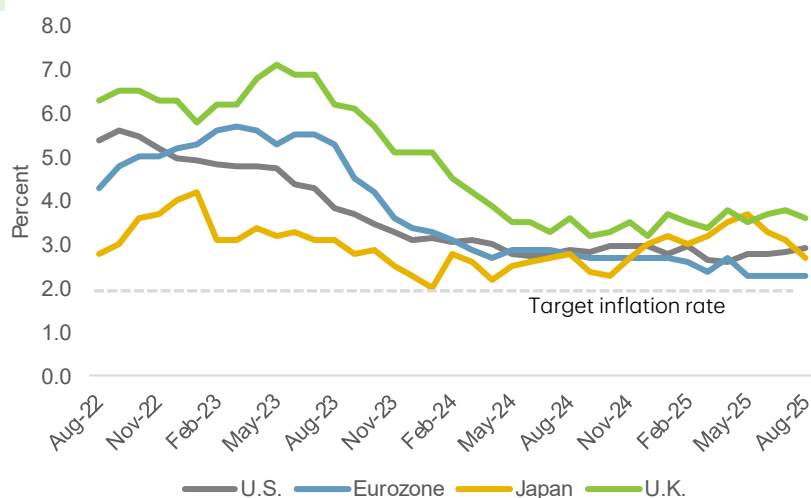
## Macro Update

- U.S. real GDP in 2Q 2025 was revised up a more-than-expected +0.5%, to 3.8%. Real final sales to private domestic purchasers expanded at 2.4% annualized rate in 1H 2025 which is above the economy's trend growth rate of ~2.0%. Government consumption (Federal) remains weak.
- We expect the administration's tariff and immigration policies to reduce household consumption. This will slow U.S. growth (real GDP) to below trend (~2.0%) in 2025 with a slight uptick in 2026. We believe 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 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.; September 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.

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

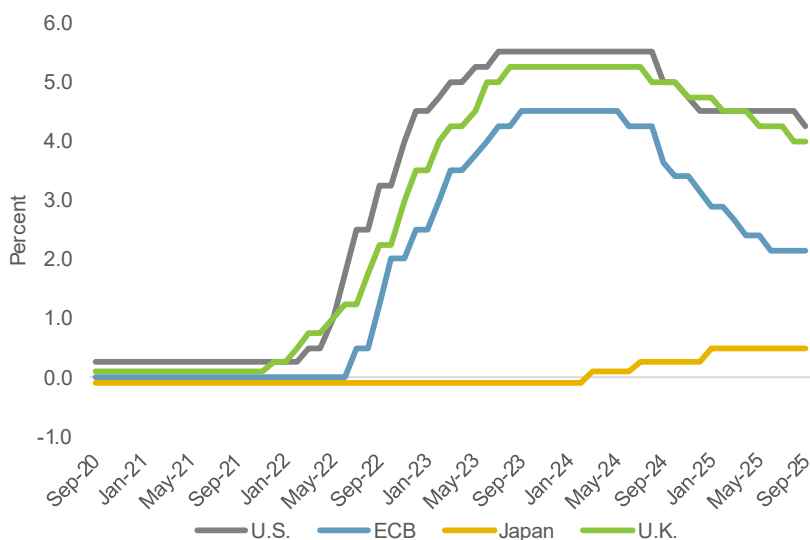
## U.S. Central Bank Update

- With the pronounced weakness in the U.S. labor market, the FOMC noted that "downside risks to employment have risen" which is similar to Chair Powell's statement at Jackson Hole. During the press conference, Chair Powell noted that the balance of risks shifted to employment and the slowdown in nonfarm payrolls is driven more by immigration than tariffs.
- 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.
- The FOMC reduced the federal funds rate by 0.25%, to 4.0%-4.25%. The median policy rate forecast is 3.6%, which reflects two more cuts in 2025.

### 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.; September 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 0.25% in September 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 4.25% (as shown in graph).

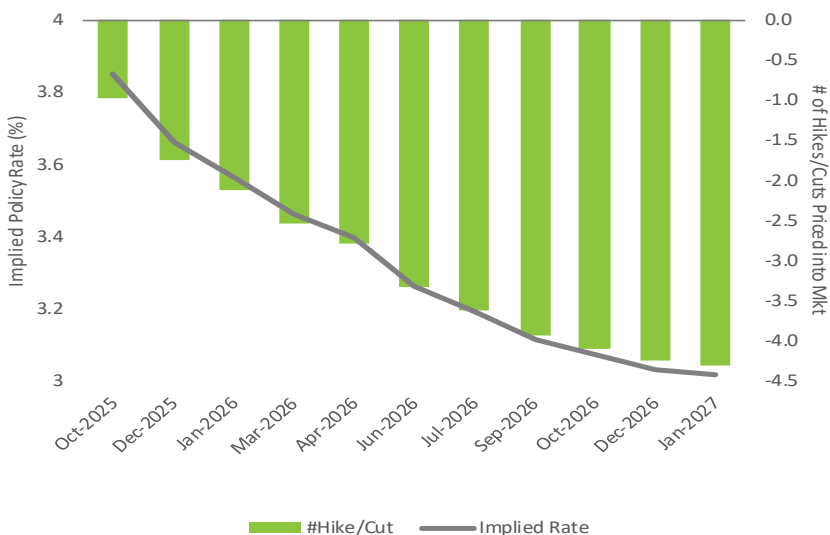
## Cash/Short-term Market Update

- Short-end Treasury yields were mixed during the month as the FOMC cut its policy rate by 0.25%. Timely economic data show a weakening 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 narrowed 3 bps, to 46 bps, during September. Investor demand remains strong as yields are attractive and corporate fundamentals remain solid.
- Prime money fund assets increased \$51.2 billion during the 3-month period ending September 2025. Total assets are \$1.2 trillion (up 15.6% 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.; September 30, 2025

Four 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 stronger than forecast growth and consumption data. 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.; September 30, 2025

At 46 bps, the index OAS is 3 bps tighter from last month end. Year-over-year, the index OAS is 10 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.

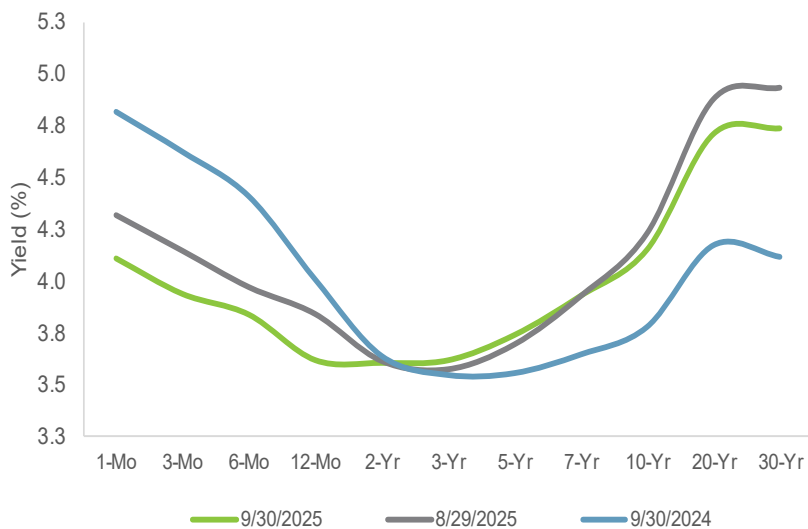
## U.S. Treasury Market Update

- U.S. Treasury yields mostly decreased as the yield curve flattened. Recent data suggest 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. Overall, these policies have elevated short-term implied inflation rates and steepened the yield curve.

### 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.; September 30, 2025

Treasury yields mostly decreased during September. The spread between 2- and 30-year maturities decreased 19 bps, to 112 bps. The yield gap between the 3-month T-Bill and 10-year Treasury is 21 bps, 13 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.; September 30, 2025

Yields in belly of the Treasury curve were mixed during the month – the 2-year yield fell, yields in the 3-7-year segment increased, while the 10-year rate decreased. 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 7 bps, to 54 bps. The 2s5s curve, at 13 bps, increased 5 bps.

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

## Investment Grade Credit Market Update

- Corporate bond spreads decreased 5 bps, to 74 bps, and the credit curve flattened relative to last month. Investor demand continues to be robust during a record supply month for September. Corporate bond yields moved lower during the month but are still at historically attractive levels.
- 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

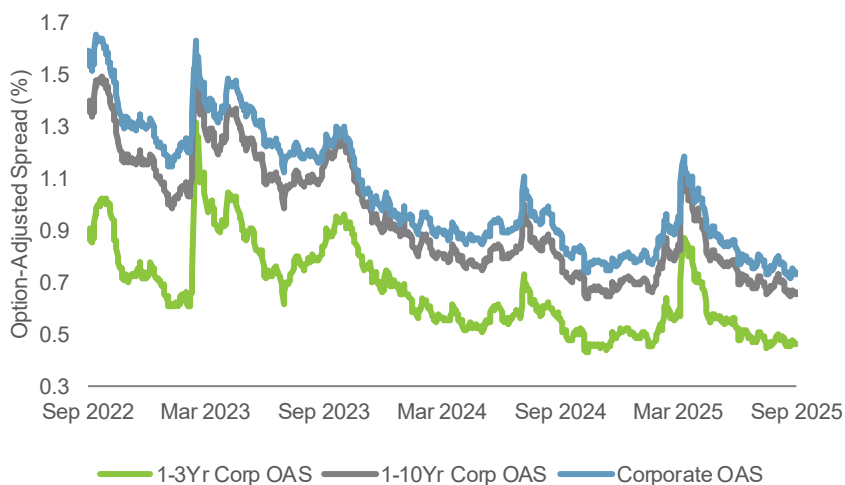


Source: Bloomberg Financial L.P.; September 30, 2025

For the month, corporate bond issuance was \$216.4 billion, a 24% increase from the same period last year and a record for the month of September. The cumulative 12-month change is 6%. The spread on the corporate bond index, at 74 bps, is 5 bps tighter on the month.

YTD issuance is \$1.374 trillion. 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



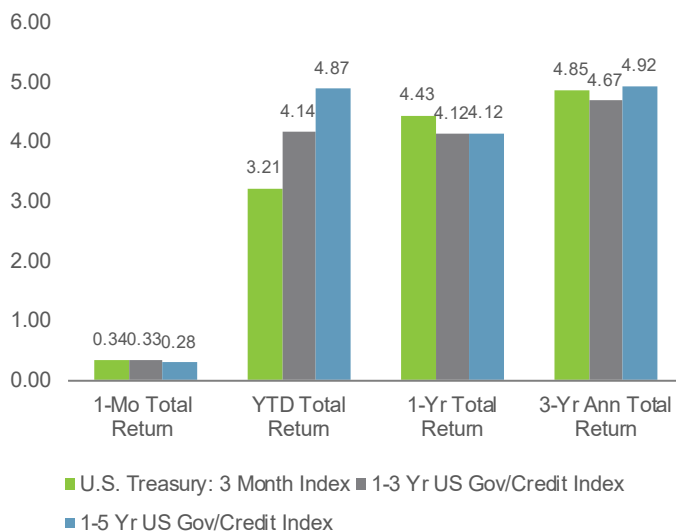
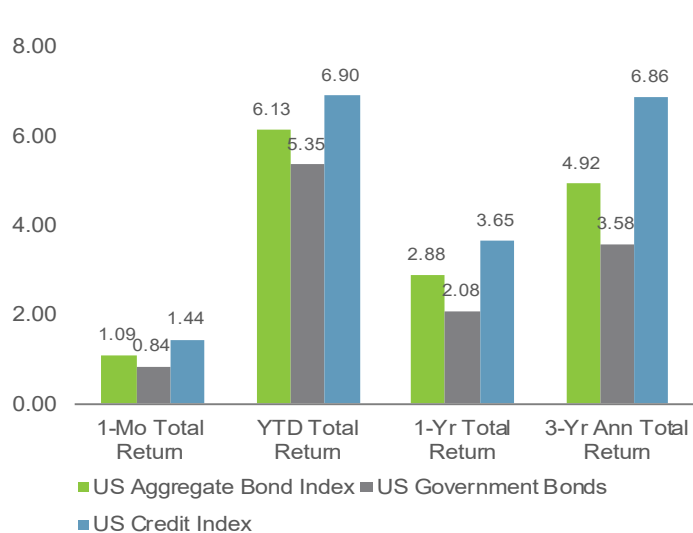
Source: Bloomberg Financial L.P.; September 30, 2025

The Bloomberg U.S. Corporate Bond Index spread is 15 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 74 bps. The 1-10-year corporate bond index OAS, at 66 bps, is 6 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 (%)	4.25	4.50	5.00	10/29/2025
CPI (YoY %)	2.90	2.40	2.50	10/15/2025
PCE (YoY %)	2.70	2.50	2.40	10/31/2025
Unemployment Rate (%)	4.30	4.20	4.20	10/3/2025
GDP (YoY %)	2.10	2.00	3.10	10/30/2025
Retail Sales (YoY %)	5.00	3.40	1.80	10/16/2025
Leading Indicators (YoY %)	-3.60	-3.90	-4.60	10/20/2025
Housing Starts (000s)	1,307	1,282	1,391	10/17/2025

Description	Current	3-mo Ago	1-yr Ago
Fed Funds (%)	4.25	4.50	5.00
3-Mo U.S. Treasury Bill	3.94	4.30	4.63
6-Mo U.S. Treasury Bill	3.84	4.25	4.41
USD O/N Govt. Repo	4.23	4.49	5.29
U.S. 30-Day Comm Paper*	4.07	4.33	4.80
U.S. 90-Day Comm Paper*	4.03	4.36	4.64

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

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

# Charts & Tables - continued

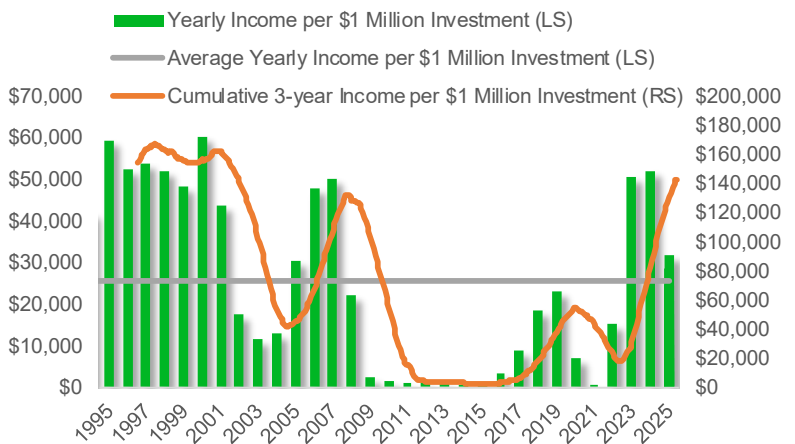
## Treasury Market



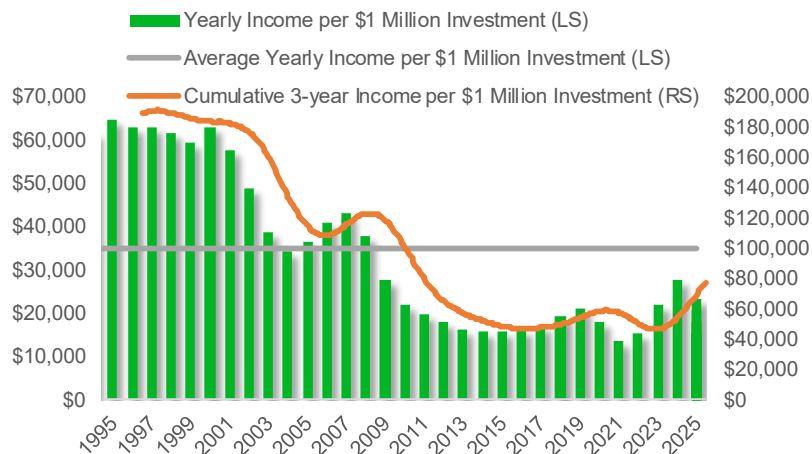
Maturity	Yield Curve (%)	Change in Yield Curve (basis points)		
		1-Mo Ago	3-Mo Ago	1-Yr Ago
1-Mo	4.11	-21	-11	-71
3-Mo	3.94	-21	-36	-69
6-Mo	3.84	-13	-41	-57
12-Mo	3.62	-22	-35	-39
2-Yr	3.61	-1	-11	-3
3-Yr	3.62	4	-7	7
5-Yr	3.74	4	-6	18
7-Yr	3.93	0	-6	28
10-Yr	4.15	-8	-8	37
20-Yr	4.71	-17	-7	53
30-Yr	4.73	-20	-4	61

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

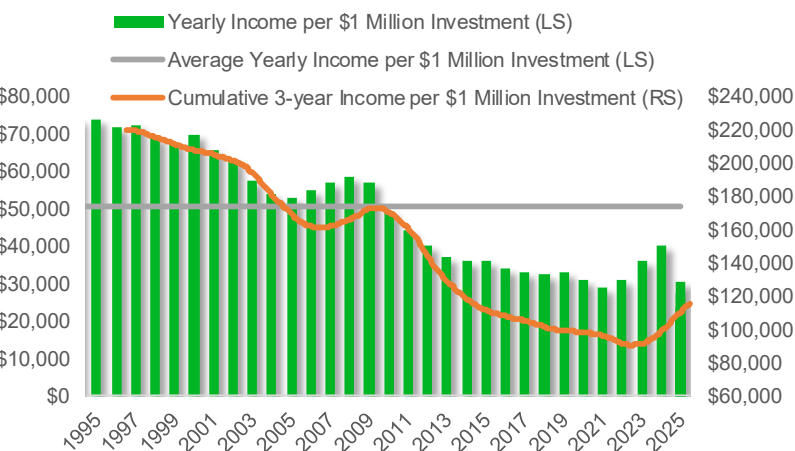
### Bloomberg U.S. 3 Month Treasury Bill Index



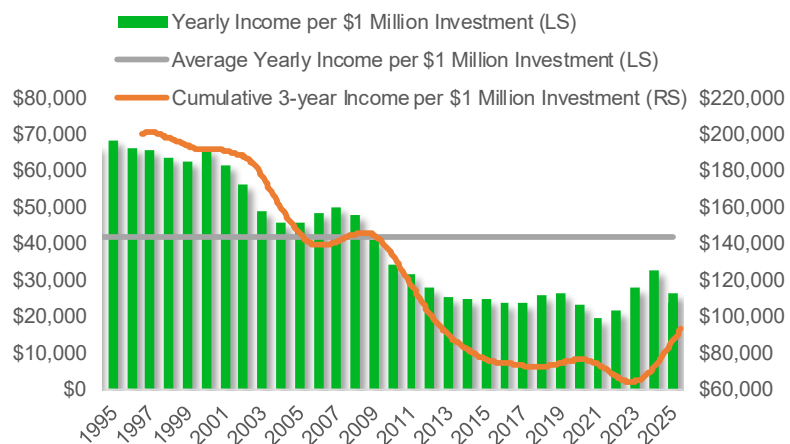
### Bloomberg U.S. Treasury 1-5 Year Index



### 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.; September 30, 2025

# Talking Points



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