TD Global Investment Solutions

Talking Points

Commentary | Apr

For the month ended April 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. A U.S. recession within the year is not our base case; however, the U.S. administration's inconsistent and chaotic approach to economic and trade policy is causing greater uncertainty within the manufacturing and service sectors of the economy. Economic survey data is indicating a broad-based slowdown with above-target inflation. The U.S. labor market continues to be resilient but is expected to weaken during 2025. We expect The Federal Open Market Committee (FOMC) to slow the pace of rate reductions in 2025 due to elevated inflation readings, a slightly softer labor market, uncertain trade policy and an unknown fiscal package. 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

- Headline U.S. GDP decreased 0.3% in 1Q 2025 (2.4% in 4Q 2024). A sequential slowdown in household consumption driven mostly by a decline in goods purchases. Both equipment spending and inventories surged and were main contributors to growth. Domestic demand is still relatively solid, but historically high imports weighed on GDP growth.

- The current federal funds target range is 4.25%-4.50%. The FOMC's median federal funds forecast for year end 2025 is 3.875%. The policy rate is still restrictive. Uncertainty around the FOMC's economic outlook has increased.

- The U.S. Treasury curve steepened – shorter-term yields fell while longer-term yields increased. Concerns regarding DOGE-related layoffs of federal employees, a slowdown in consumption data, and both elevated uncertainty and unease around the magnitude of trade policy changes continue to affect interest rates.

- Corporate bond spreads widened month over month for the same factors highlighted above as markets demonstrate concern that volatile trade policy may impact future business investment and consumption amidst an already decelerating growth backdrop.

Investment Professionals:

Dennis Woessner, CFA, CAIA
Vice President & Director

Russell Wald, CFA
Vice President

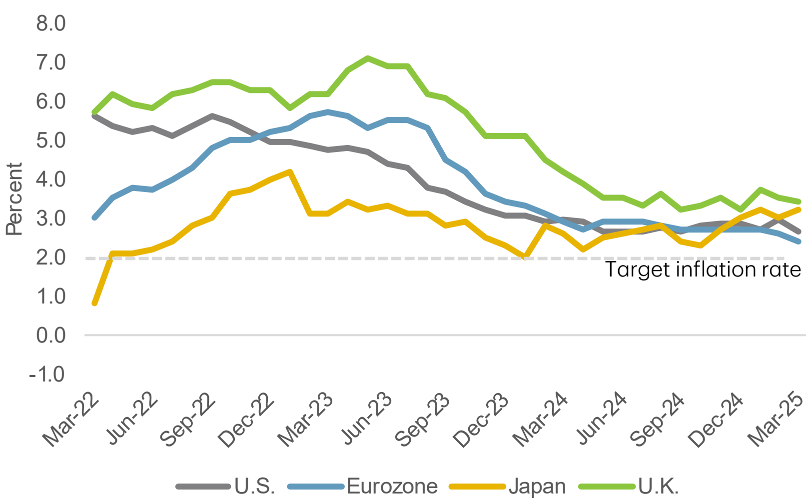
Macro Update

- U.S. real GDP decreased 0.3% in 1Q 2025 (2.4% in 1Q 2024). A sequential slowdown in household consumption driven mostly by a decline in goods purchases was more than offset by the surge in equipment spending and inventories. Net exports detracted from growth as imports surged during the quarter, likely pulled forward due to tariffs. Domestic demand remains solid but will likely soften in the coming months.
- We expect tariff policy and uncertain fiscal policy will push U.S. growth (real GDP) to be below trend (~2.0%) in 2025. These negative impulses will constrict household consumption and business spending. We believe the labor market will weaken during the remaining part of this year.

Long-Term Views:

- U.S. growth will be positive, at the margin, 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.; March 31, 2025

Headline inflation in the U.S. and other major economies is no longer decelerating and remains above target levels. U.S. core prices remain elevated and above the FOMC's target as well. We expect inflation to remain anchored over the next twelve months, with elevated uncertainty, due to the administration's tariff policy.

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

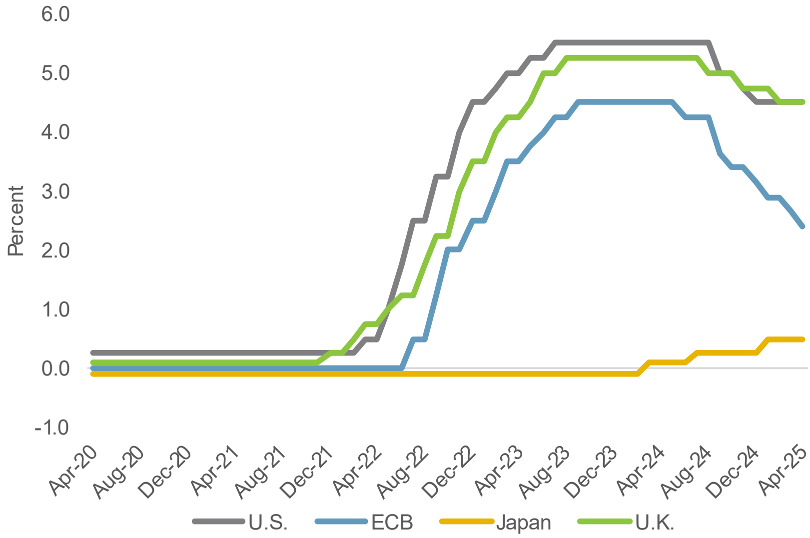
U.S. Central Bank Update

- The current federal funds target range is 4.25%-4.50%. The pace of rate cuts will slow in 2025 due to above-target inflation, a slightly weaker labor market, and a less restrictive policy rate. The 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 growth is weakening more meaningfully.
- The FOMC's summary of economic projections report shows below-trend growth, higher-for-longer inflation, a slightly weaker labor market, and a declining federal funds rate, to 3.875% by year end 2025. These projections will most likely be modified when the administration's economic policies, specifically tariffs, are known and implemented.

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 in 2025; however, this outcome is highly uncertain due to the current administration's tariff and fiscal policy agenda.
- The FOMC is committed to its monetary policy 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, 2025

Central Banks have kept inflation expectations well anchored by raising their respective policy rates (becoming more restrictive) thereby slowing growth by reducing demand as inflation remains above target.

Most major Central Banks are now easing policy restrictions as data are showing moderating growth and disinflation, albeit at a much slower pace. Central Banks are communicating data dependency to determine future policy decisions.

The Federal Reserve reduced the federal funds rate by 1.0 ppt since it began cutting rates in September. The upper bound of its target range is 4.50% (as shown in graph).

Cash/Short-term Market Update

- Short-end Treasury yields decreased during the month. Concerns regarding material layoffs of federal employees, a slowdown in consumption data, and uncertain tariff policy continue to be factors in declining rates.
- During the month, short-term credit spreads widened 15 bps, to 73 bps. The factors noted above negatively impacted non-Treasury assets. Solid fundamentals, attractive yields, and durable growth have supported credit spreads.
- Prime money fund assets increased $29.8 billion during the 3-month period ending April 2025. Total assets are $1.133 trillion (up 11% 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.; March 31, 2025

Fewer rate cuts are expected in 2025 as the FOMC's updated projections indicate that inflation will remain higher for longer. It expects the PCE price index to reach the 2.0% target by year-end 2027.

The implied policy rate reached a peak rate of 5.3% in 2024. This rate is now expected to decline along a much shallower path in 2025 due elevated inflation, slightly below-trend economic growth, and uncertainty with respect trade policies under the presidential administration.

1-3 Year Corporate Option-Adjusted Spread (OAS)

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

At 73 bps, the index OAS is 15 bps wider from last month end. Year-over-year, the index OAS is 19 bps wider. Factors which may benefit spreads are moderating inflation, trend GDP growth outlook, 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 strong footing as growth slows to below trend. Financial conditions are not overly restrictive as the FOMC is easing policy restriction and spreads have risen from near multiyear tight levels.

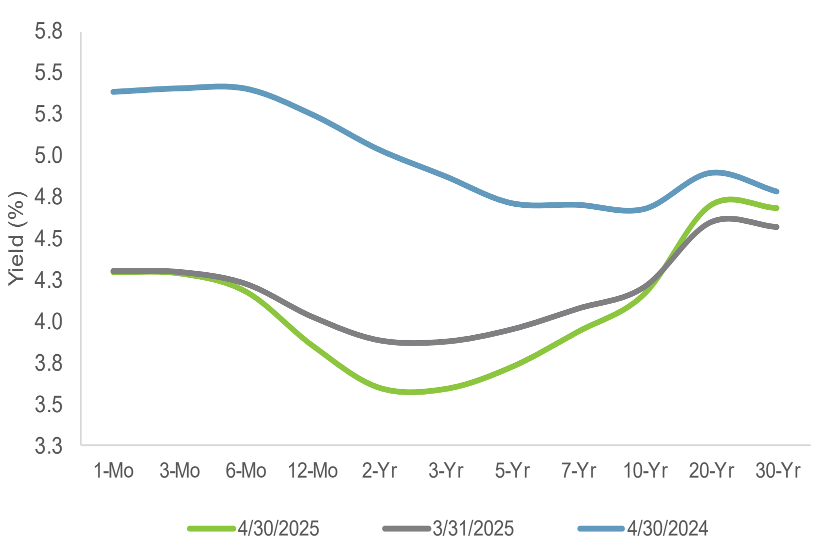
U.S. Treasury Market Update

- The U.S. Treasury curve steepened – shorter-term yields decreased while longer-term yields increased. Concerns regarding DOGE-related layoffs of federal employees, a slowdown in consumption data, and uncertain tariff policy have been factors in declining rates. Recent economic data indicate a weaker consumption outlook.
- The scale and scope of the Trump administration's trade, tax, immigration, and regulatory policies to expected real economic growth and inflation remains uncertain. Overall, these policies have elevated short-term implied inflation rates.

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

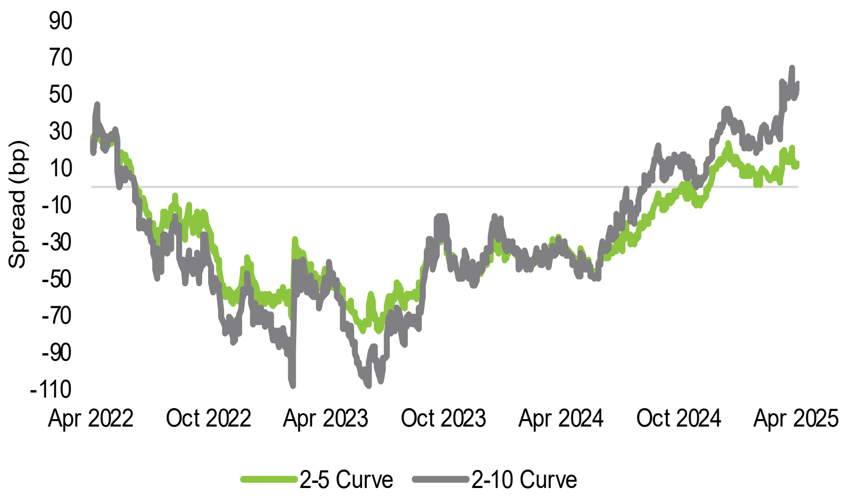


Source: Bloomberg Financial L.P.; March 31, 2025

The belly of the yield curve performed best as interest rates mostly decreased. The spread between 2- and 30-year maturities increased 39 bps, to 107 bps. The yield gap between the 3-month T-Bill and 10-year Treasury is -12 bps, -3 bps from last month end.

We expect yields to move lower from current levels as labor demand weakens, and economic growth slows. The FOMC's policy framework is still restrictive. 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.; March 31, 2025

The belly of the Treasury curve steepened during the month as one more potential rate cut is being priced into the market. Investors maintain focus on indicators pointing to weaker economic growth and sticky inflation outlooks. The 2s10s curve rose 24 bps, to 56 bps. The 2s5s curve, at 12 bps, increased 6 bps.

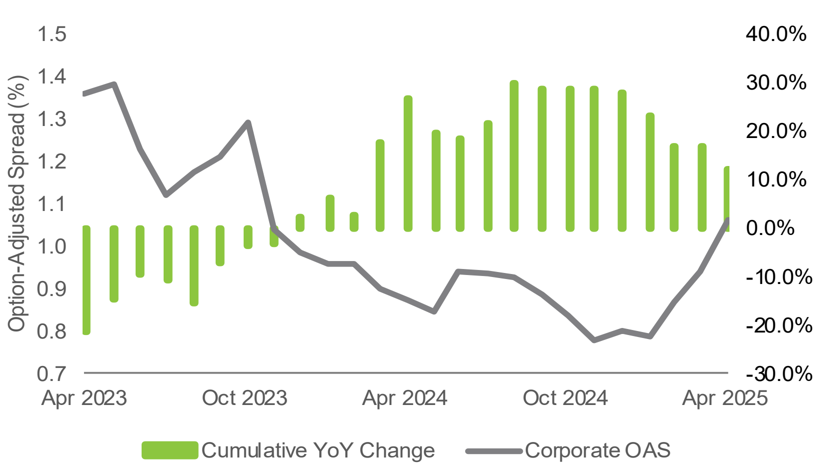
Investment Grade Credit Market Update

- Corporate bond spreads widened 12 bps, to 106 bps, and the credit curve flattened relative to last month. Timely US economic data show weakening household consumption, with overall aggregate demand expected to slow for the remainer of the year.
- Investors are showing greater focus on potential negative growth impacts of recent administration policies and policy uncertainty.
- Looking forward, corporate fundamentals should remain positive but will continue to weaken from very strong levels as the economy enters a period of below trend growth

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

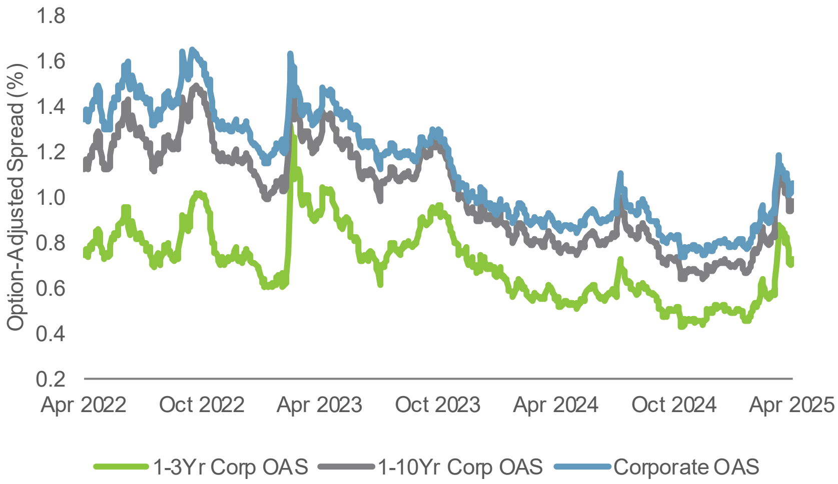


Source: Bloomberg Financial L.P.; March 31, 2025

In April, corporate bond issuance was $105 billion, a 9% decrease from the same period last year. The cumulative 12-month change is 12%. The spread on the corporate bond index, at 106 bps, is 12 bps wider on the month.

Consensus 2025 corporate bond issuance is similar to 2024's tally of $1.55 trillion.

Corporate Spreads by Maturity



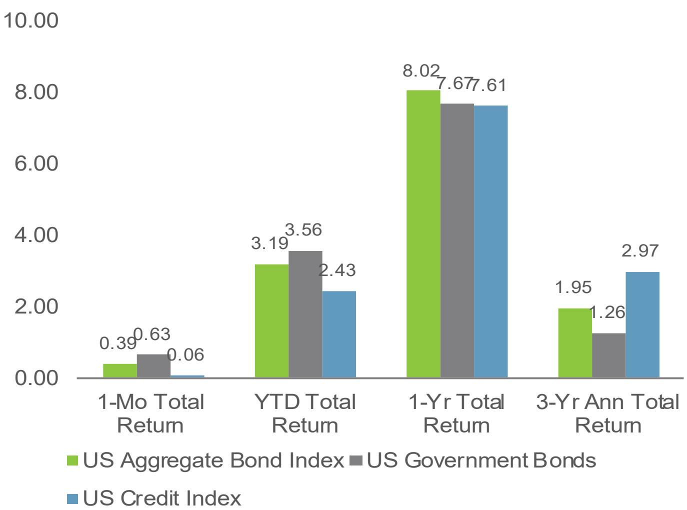
Source: Bloomberg Financial L.P.; March 31, 2025

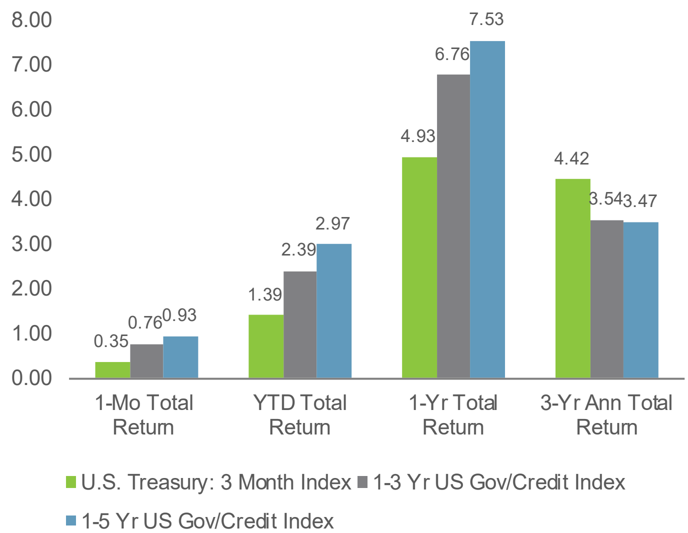
The Bloomberg U.S. Corporate Bond Index spread is 19 bps wider during the past 12-month period. There has been strong investor demand during a period of relatively higher yields and record issuance. Factors which may benefit future spreads are moderating inflation, trend GDP growth outlook, and an easing FOMC policy framework. Uncertainty from tariff and fiscal policies is negatively impacting spreads.

The corporate bond index OAS is 12 bps wider since last month end, currently 106 bps.

Charts & Tables

Fixed Income Indices





Economic Figures & Short-term Rates

Description	Current	3-mo Ago	1-yr Ago	Next Release
Fed Funds (%)	4.50	4.50	5.50	5/7/2025
CPI (YoY %)	2.40	2.90	3.50	5/13/2025
PCE (YoY %)	2.30	2.60	2.80	5/30/2025
Unemployment Rate (%)	4.20	4.10	3.90	5/2/2025
GDP (YoY %)	2.00	2.50	2.90	5/29/2025
Retail Sales (YoY %)	4.90	4.60	3.50	5/15/2025
Leading Indicators (YoY %)	-3.50	-3.00	-5.50	5/19/2025
Housing Starts (000s)	1,324	1,526	1,299	5/16/2025

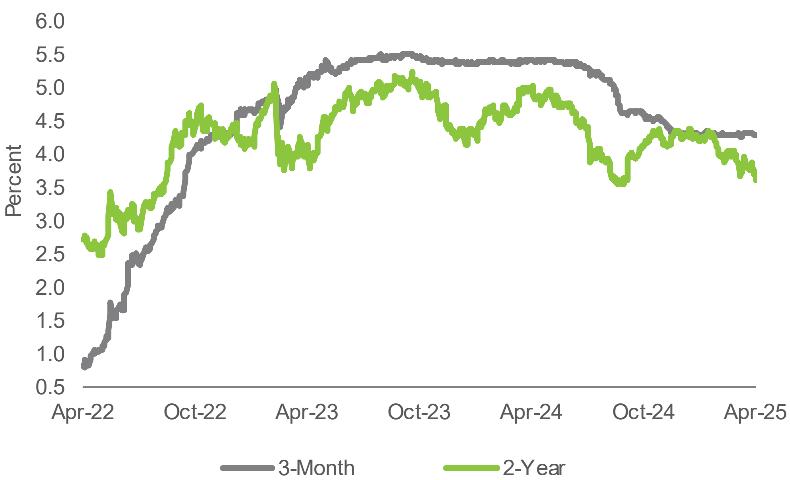
Description	Current	3-mo Ago	1-yr Ago
Fed Funds (%)	4.50	4.50	5.50
3-Mo U.S. Treasury Bill	4.29	4.29	5.40
6-Mo U.S. Treasury Bill	4.18	4.30	5.40
USD O/N Govt. Repo	4.52	4.43	5.43
U.S. 30-Day Comm Paper*	4.37	4.30	5.32
U.S. 90-Day Comm Paper*	4.38	4.35	5.38

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

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

Charts & Tables - continued

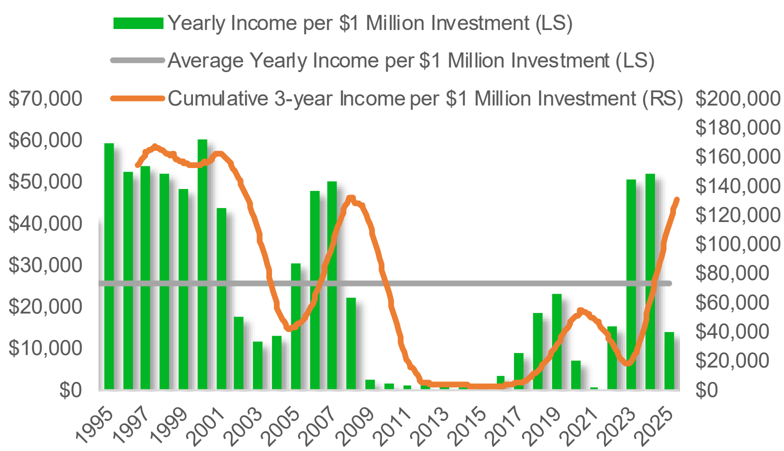
Treasury Market



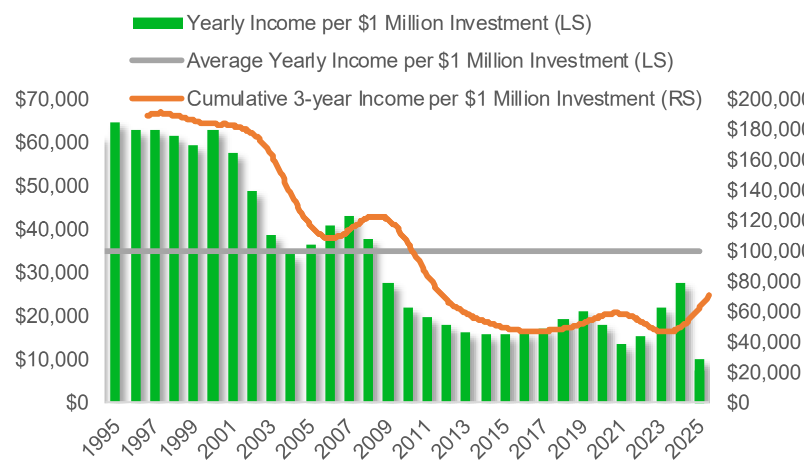
Maturity	Yield Curve (%)	Change in Yield Curve (basis points) 1-Mo Ago	3-Mo Ago	1-Yr Ago
1-Mo	4.30	-1	0	-108
3-Mo	4.29	-1	0	-111
6-Mo	4.18	-5	-13	-122
12-Mo	3.86	-17	-30	-139
2-Yr	3.61	-28	-59	-143
3-Yr	3.60	-28	-64	-128
5-Yr	3.73	-22	-60	-99
7-Yr	3.94	-14	-50	-77
10-Yr	4.16	-4	-38	-52
20-Yr	4.70	10	-15	-20
30-Yr	4.68	11	-11	-11

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

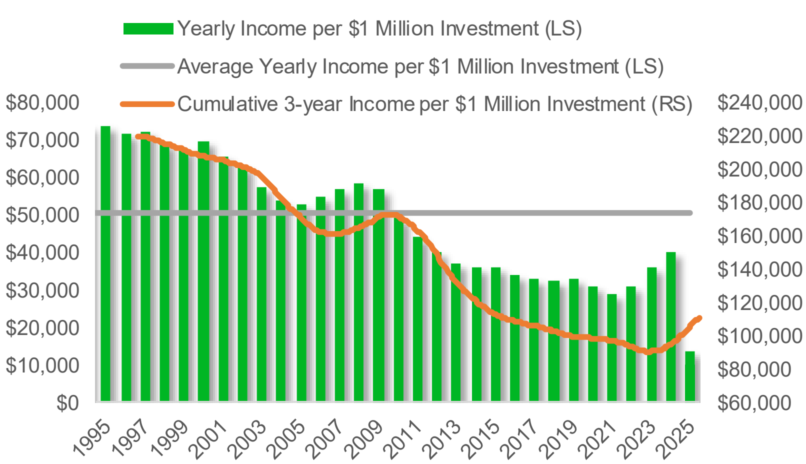
Bloomberg U.S. 3 Month Treasury Bill Index



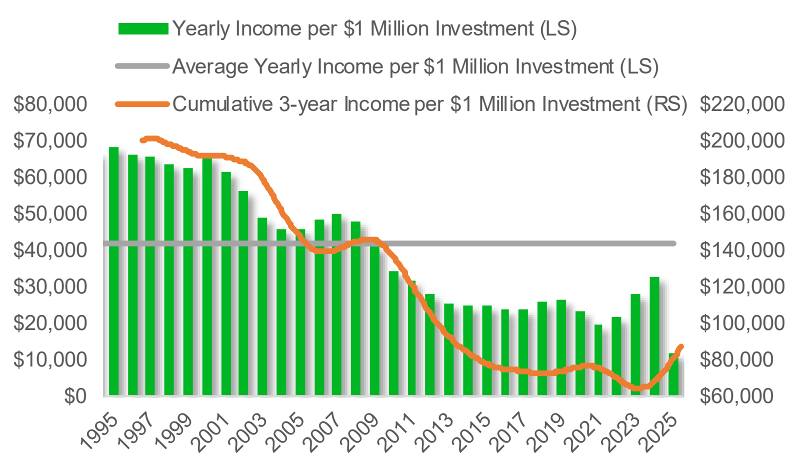
Bloomberg U.S. Treasury 1-5 Year Index



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.; March 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 may 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.