TD Asset Management

TDAM USA, Inc. Talking Points

Commentary

For the month ended March 31, 2021

APR 2021

Fixed Income Outlook

TDAM USA, Inc. (TDAM) emphasizes capital preservation in our active fixed income portfolios while seeking to maintain a yield advantage relative to the benchmark. The fiscal and monetary response to the coronavirus pandemic (COVID-19) helped ameliorate the negative impact to the U.S. economy. Since the latter half of 2020 the U.S. economy has bottomed and is recovering at a robust pace. Unemployment remains high and a major concern for the Federal Reserve (the Fed) and policymakers but is recovering as the economy reopens and the rate of vaccinations accelerates. From a corporate credit perspective, the shutdowns and stay-at-home orders caused a setback in credit risks that was offset by swift action by the Fed to stabilize markets last March. The credit markets have been recovering since then, with spreads returning to pre-COVID 19 levels. The bond market will still be subject to volatility from an uneven recovery, the speed of vaccinations and the impact of the additional stimulus package which passed during the first quarter. We believe interest rates will remain relatively low as the Fed continues to incorporate a more accommodative stance with respect to interest rates and its balance sheet. The yield curve may become steeper, with intermediate and long-term rates climbing due to positive economic prospects. We remain constructive, and more selective toward credit and are comfortable with our strategic credit overweight. 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

- Recent economic releases indicate the U.S. is recovering from the abrupt slowdown due to the pandemic. There was positive growth during the second half of 2020, and we expect the positive momentum of Q1 to continue, fueled by the stimulus package.
- Treasury yields remain at historically low levels, and the yield curve steepened during the quarter on positive economic prospects.
- The Federal Open Market Committee (FOMC), remains firmly committed to a policy which will support the financial markets during this period of economic uncertainty. The target range of fed funds is 0.00%-0.25%.
- Corporate bond spreads narrowed during the quarter as the economy continued to recover.

Source: TDAM, TD Economics & Bloomberg Financial L.P.; March 31, 2021

Investment Professionals:

Glenn Davis, CFA
Managing Director

Dennis Woessner, CFA, CAIA
Vice President & Director

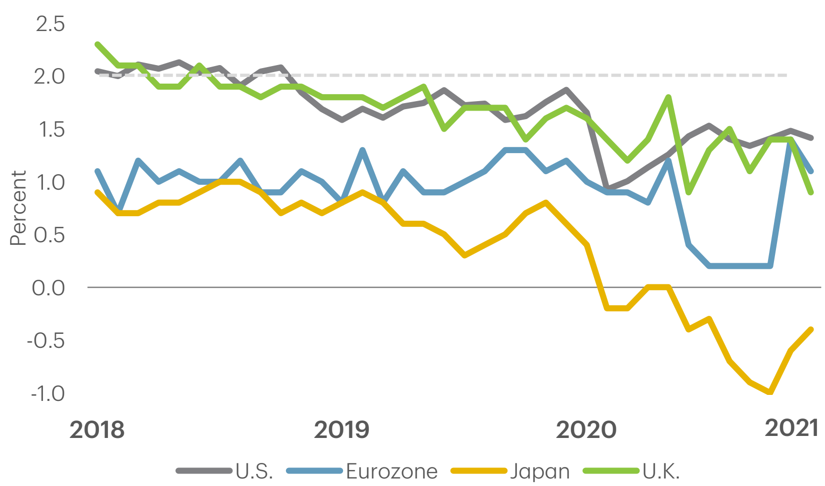
Macro Update

- U.S. real GDP expanded by 4.3% in the fourth quarter, versus the prior quarter's growth of 33.4%. Consumer spending, business investment, and inventories positively contributed to growth. Same as Q3, net exports detracted from growth. Private domestic demand continues to be strong due to stimulus measures. Q1 2021 GDP is expected to increase by 4.8%.
- The U.S. and global growth was positive during the second half of 2020 due to the implementation of monetary and fiscal stimulus policies; however, domestic and global growth contracted 3.5% in 2020. The U.S. economy is expected to grow 5.7% in 2021.

Source: TD Economics & Bloomberg Financial L.P.; March 31, 2021

- **Our Long-Term Views:**
    - U.S. and global economic growth is expected to be positive in 2021. Economic recovery from the pandemic will be protracted and uneven until the full impact of widespread vaccination is felt.
    - The Fed policy should remain dovish. Interest rates are expected to stay relatively low for an extended period.
    - Inflation in developed markets is expected to remain challenged. This is another reason for the FOMC to remain dovish.

Inflation



Source: Bloomberg Financial L.P.; March 31, 2021

Expected low inflation combined with historically low policy rates from all major central banks is contributing to unprecedented low yields across the globe. U.S. inflation remains below the Fed's target of 2%.

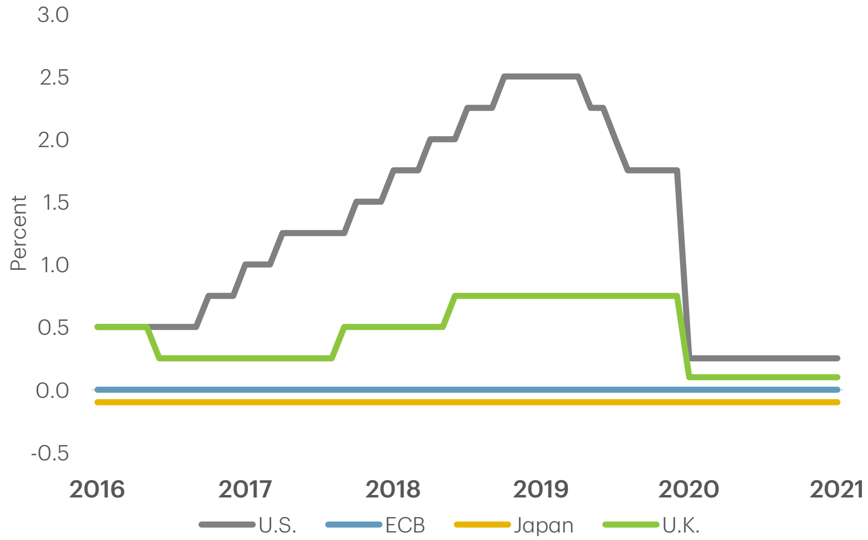
U.S. Central Bank Update

- The Fed funds target range remains at 0-0.25%. Additionally, the Federal Reserve continues to support a low interest rate environment through its quantitative easing (QE) program (purchasing U.S. Treasury issues and U.S. Agency MBS). The Fed has reiterated its commitment to an accommodative policy for as long as necessary.
- Major central banks across the globe have eased monetary policy through lower rates and/or quantitative easing to mitigate financial stress and provide liquidity to the marketplace.

Source: TD Economics & Bloomberg Financial L.P.; March 31, 2021

- **Our Long-Term Views:**
    - Interest rates will be low for an extended period of time.
    - The Fed's commitment to their monetary policies and market facilities have been instrumental in stabilizing the markets. An equally robust fiscal policy has been forthcoming from the Biden administration.
    - Central banks are the liquidity provider of last resort, providing a backstop to financial market stress.

Central Bank Policy Rates



Source: Bloomberg Financial L.P.; March 31, 2021

Lower policy rates and QE eased financial stress, providing liquidity to fixed income and equity markets and will remain intact for the foreseeable future.

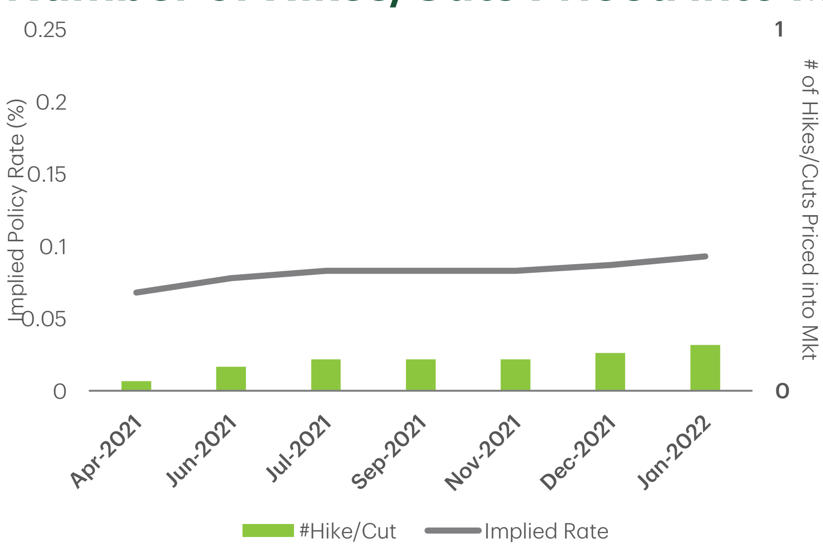
Cash/Short-term Market Update

- The target fed funds rate is effectively 0.00% and short-term Treasury yields are at historically low levels.
- Short-term credit spreads decreased during the quarter and are effectively back to pre-COVID-19 levels.
- Prime money fund assets decreased during the first quarter of 2021. Total assets are $511.1 billion at quarter end versus a pre-pandemic $801.9 billion. Assets are 5.3% lower QoQ and 22.4% lower YoY as investors seek yields above the 1 basis point typically available from money market mutual funds.

Source: Bloomberg Financial L.P.; March 31, 2021

- **Current Positioning:**
  - Short and Short/Intermediate Government/Credit models remain overweight corporate bonds and have a shorter duration relative to benchmark.

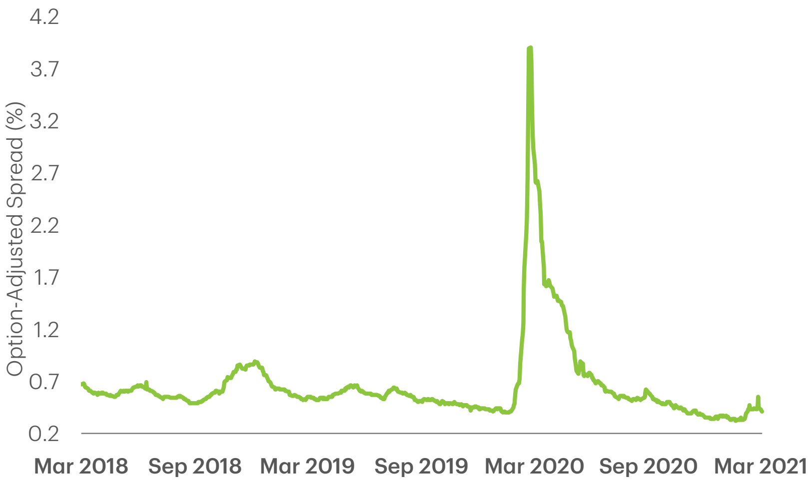
Number of Hikes/Cuts Priced into Market



Source: Bloomberg Financial L.P.; March 31, 2021

The market expects no change to the fed funds rate through Q2 2022.

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



Source: Bloomberg Financial L.P.; March 31, 2021

Unprecedented monetary and fiscal stimulus benefitted the corporate bond market.

1-3 year corporate OAS, at 29 bps. The OAS is now effectively back to pre-pandemic levels.

Corporate fundamentals were challenged but expectations are that these will improve as the economy recovers.

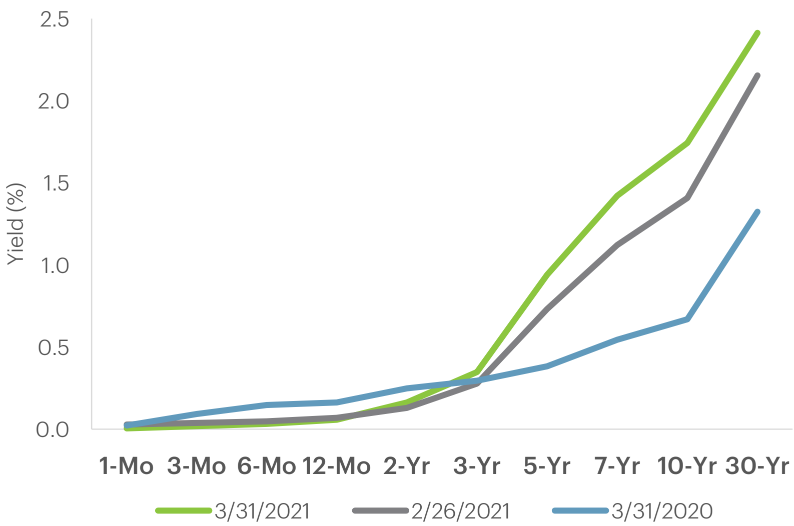
U.S. Treasury Market Update

- Treasury yields are at historically low levels – front end yields are back to lows observed during October 2011.
- A larger portion of the Treasury supply is being offset by Federal Reserve's purchases as part of the quantitative easing program.
- Longer-term interest rates moved sharply higher during the month, while short-term rates remained essentially unchanged.

Source: Bloomberg Financial L.P.; March 31, 2021

- **Current Positioning:**
  - Government models remain overweight the agency sector and have a shorter duration relative to benchmark.

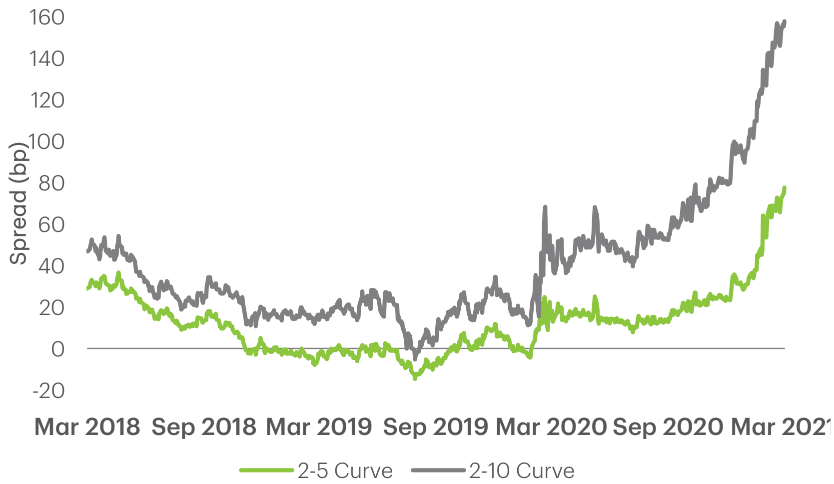
Treasury Yields



Source: Bloomberg Financial L.P.; March 31, 2021

Driven by the abrupt slowdown in the U.S. economy and the FOMC's reduction in interest rates, short-end yields are at historic lows. The curve steepened during the quarter as the momentum of the recovery continues, bolstered by additional stimulus, and an accelerating vaccination rate.

Treasury Curves



Source: Bloomberg Financial L.P.; March 31, 2021

The Treasury curve continued to steepen as the 10-year Treasury yield approached 2.00% during the month. Short-term rates anchored by Fed policy.

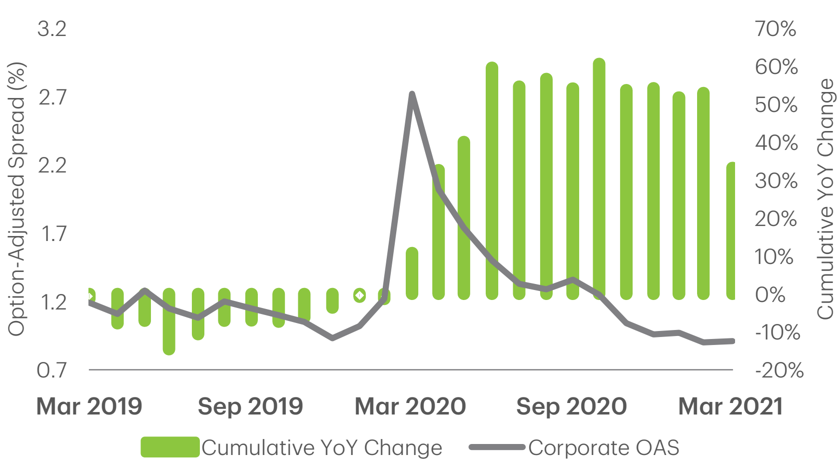
Investment Grade Credit Market Update

- Underlying fundamental data was weakened due to the coronavirus pandemic; however, earnings reports have become more encouraging.
- Many companies have taken advantage of historically low rates to refinance short-term debt and/or increasing their cash positions to enhance financial flexibility to their balance sheet.
- Corporate spreads were mixed during the month as longer maturity spreads tightened while shorter spreads were wider. Corporate bonds have outperformed similar duration Treasuries since late March of 2020.

Source: Bloomberg Financial L.P.; March 31, 2021

- **Current Positioning:**
  - Government/Credit models remain overweight the corporate sector, mostly the banking industry, and have a shorter duration relative to benchmark.

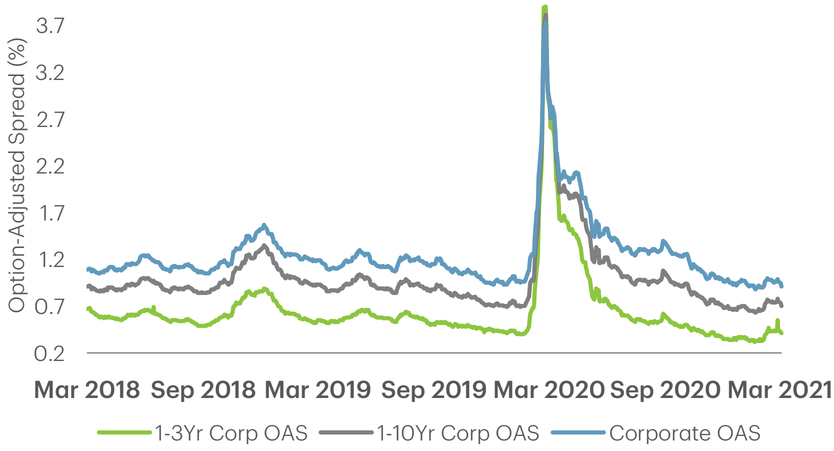
Corporate Spread & Issuance



Source: Bloomberg Financial L.P.; March 31, 2021

New issuance remains robust as spreads declined and rates remain low. Primary market issuance slightly declined relative to this period last year; however, the rolling 12-month change is still elevated, at ~52%. We believe a decline in new issuance should continue into 2021.

Corporate Spreads by Maturity



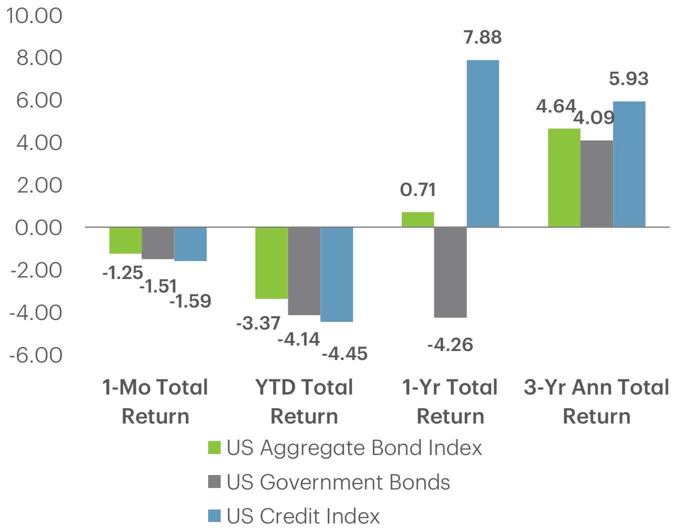
Corporate bond spreads continue to tighten from levels not seen since the financial crisis due to the Federal Reserve's unlimited QE, improving economic data and quarterly corporate earnings exceeding downwardly revised forecasts. The accelerating rate of recovery and vaccinations is providing a positive backdrop for the credit markets.

The corporate index OAS, at 91 bps, has essentially returned to pre-COVID levels.

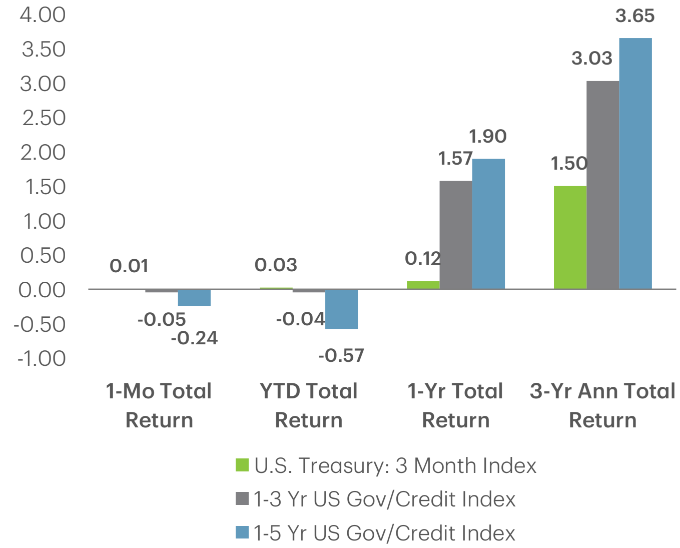
Source: Bloomberg Financial L.P.; March 31, 2021

Charts & Tables

Fixed Income Bond Indices (%)



Total Return (%)



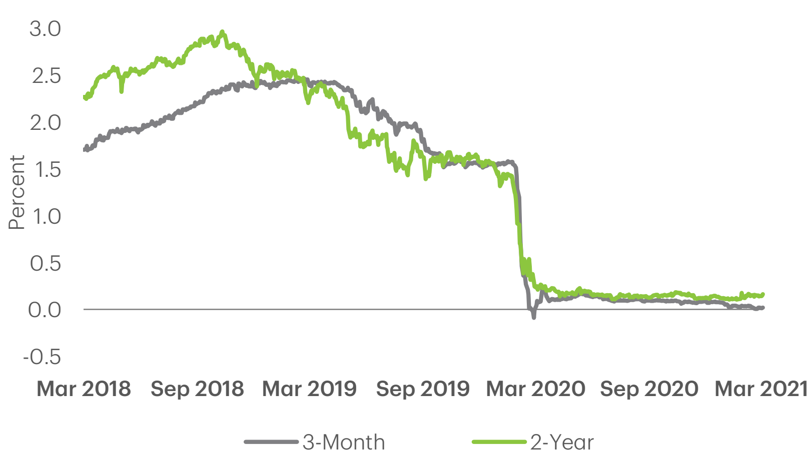
Economic Figures & Short-term Rates

Description	Current	3-mo Ago	1-yr Ago	Next Release
Fed Funds (%)	0.25	0.25	0.25	4/28/2021
CPI (YoY %)	1.70	1.20	2.30	4/13/2021
PCE (YoY %)	1.60	1.10	1.80	4/30/2021
Unemployment Rate (%)	6.20	6.70	3.50	4/2/2021
GDP (YoY %)	-2.40	-2.80	2.30	4/29/2021
Retail Sales (YoY %)	6.30	3.80	4.70	4/15/2021
Leading Indicators (YoY %)	-1.30	-2.10	0.40	4/22/2021
Housing Starts (000s)	1,421	1,553	1,567	4/16/2021

Description	Current	3-mo Ago	1-yr Ago
Fed Funds (%)	0.25	0.25	0.25
3-Mo U.S. Treasury Bill	0.02	0.07	0.09
6-Mo U.S. Treasury Bill	0.03	0.09	0.15
USD O/N Govt. Repo	0.02	0.10	-0.01
U.S. 30-Day Comm Paper*	0.19	0.08	1.45
U.S. 30-Day Comm Paper*	0.17	0.15	1.57

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

Treasury Market



Maturity	Yield Curve (%)	Change in Yield Curve (basis points) 1-Mo Ago	3-Mo Ago	1-Yr Ago
1-Mo	0.00	-2	-4	-2
3-Mo	0.02	-2	-5	-7
6-Mo	0.03	-2	-5	-12
12-Mo	0.06	-1	-5	-10
2-Yr	0.16	3	4	-9
3-Yr	0.35	7	18	5
5-Yr	0.94	21	58	56
7-Yr	1.42	30	78	88
10-Yr	1.74	34	83	107
30-Yr	2.41	26	77	109

Source for all charts and tables: Bloomberg Financial L.P.; March 31, 2021

Talking Points

Important Information

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