TD Asset Management

Talking Points

Commentary

2024 MAR

For the month ended March 2024

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. real Gross Domestic Product (GDP) will slow to below trend in 2024, with little improvement expected in 2025. Elevated inflation, higher interest rates, reduced private-sector consumption, and a decline in business investment may contribute to a recession during 2024. Elevated inflation and a strong U.S. labor market are factors contributing to higher short-term rates, via U.S. Federal Reserve (Fed) funds rate hikes. The bond market will be subject to heightened volatility due to persistently high inflation, tighter financial conditions, and geopolitical events. The period of climbing front-end yields has ended as the Federal Open Market Committee (FOMC) completed its hiking cycle. However, the FOMC is committed to its restrictive policy framework – an elevated federal funds target rate and balance sheet reduction. We remain constructive, and very selective toward 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

- Household consumption and slowing inflation helped lift real U.S. GDP growth in Q4 2023. Most macro economic data indicates a slowing U.S. economy into the first half 2024 with the possibility of recessionary conditions in 2024.
- The current federal funds target range is 5.25%-5.50%. The Fed's median federal funds forecast for year end 2024 is 4.625%. The FOMC will keep its policy rate restrictive until it believes inflation is on a sustained downward path to two-percent which will take time.
- U.S. Treasury yields decreased during the month. Recently released data indicates firmer than expected inflation, a resilient labor market and strong household consumption. This may also delay the expected first Fed interest rate cut as well as the total number of eases during 2024.
- Corporate bond spreads decreased month-over-month (MoM) as one of the busiest quarterly primary market issuance cycles ends. Investors are positioned for low economic growth and are assigning a lower risk premium to geopolitical factors, tighter bank lending standards and the FOMC's restrictive monetary policy.

Investment Professionals:

Glenn Davis, CFA
Managing Director

Dennis Woessner, CFA, CAIA
Vice President & Director

Source: TD Asset Management, TD Economics & Bloomberg Financial L.P.; March 31, 2024

Macro Update

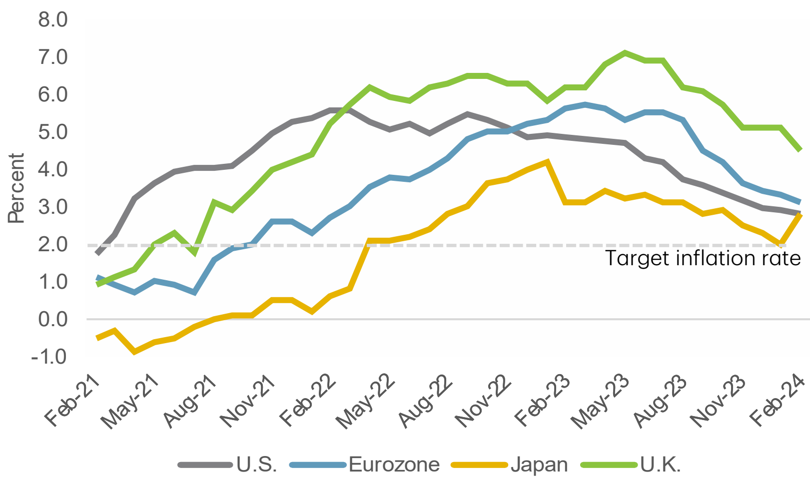
- U.S. real GDP increased 3.4% in Q4 2023 (4.9% in Q3 2023). The increase was primarily due to consumer spending, government outlays, and net exports. Domestic demand remains strong and quarterly measures of inflation are at or below the FOMC's target rate.
- Economic data was better than forecast during the fourth quarter. We expect U.S. growth will weaken into and during 2024, with little improvement in 2025. A U.S. recession within the year is possible as the FOMC maintains its restrictive policy framework, consumer demand wanes and business investment declines as corporate profits fall; however, the labor market remains strong.

Source: TD Economics & Bloomberg Financial L.P.; March 31, 2024

Our Long-Term Views:

- U.S. and global economic growth remain relatively weak and recessionary risks are high in certain regions. A broad economic slowdown driven by higher short term interest rates, elevated inflation, and a broader contraction in credit could lead to muted returns.
- The Fed policy framework will be restrictive to mitigate inflation. Tighter financial conditions may result, as nominal and real interest rates remain elevated.
- Inflation in developed markets continues to decline due to a more sustained supply/demand balance. Higher wages, higher food prices, and geopolitical events are still factors of concern.

Inflation



Source: Bloomberg Financial L.P.; March 31, 2024

Headline inflation in the U.S. and other major economies has peaked and is decreasing. U.S. core prices remain elevated but are trending lower as well. We expect inflation to decline over the next twelve months; however, achieving the FOMC's two-percent target may take longer than the market and FOMC expect.

U.S. Central Bank Update

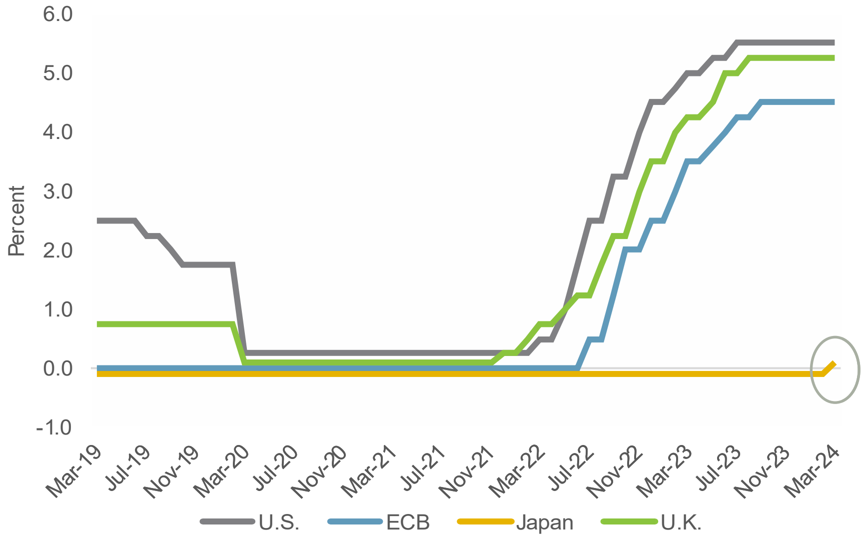
- The federal funds target range remains at 5.25%-5.50% which is probably the peak range based on Chair Powell's comments. Also of importance, is that the FOMC's statement dropped its tightening bias so the next rate move is most likely lower. Based on the commentary from a variety of FOMC members, we believe the first interest rate cut may occur by mid-2024; however, weaker goods deflation may keep rates higher for longer.
- The Fed's summary of economic projections for 2024 show above-trend growth, a flatter path of disinflation, a slightly weaker labor market, and a declining federal funds rate, to 4.625% by year end which we believe means three rate cuts from the current rate.

Source: TD Economics & Bloomberg Financial L.P.; March 31, 2024

Our Long-Term Views:

- The federal funds effective rate will remain higher for longer as the FOMC continues its fight against inflation. We expect an initial rate cut in mid-2024.
- 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, 2024

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 at the end of their respective tightening cycles and are data dependent when determining future policy decisions.

The Bank of Japan (BoJ) ended its negative interest rate policy regime in March. The policy rate range is now 0.0% to 0.1%. Another hike may occur later this year.

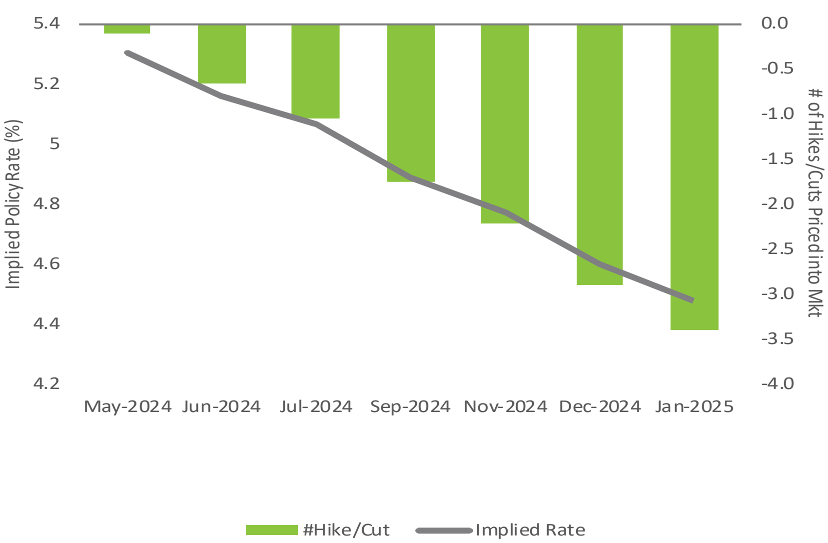
Cash/Short-term Market Update

- Short-term Treasury yields were either unchanged or lower for the month as the median FOMC forecast still shows three rate cuts in 2024 even as disinflation seems to be slowing. The Fed's first interest rate cut is expected by June/July.
- Short-term credit spreads narrowed 5 basis points (bps) during the month to 57 bps as many investors position for low economic growth, with no recession, and assign a lower risk premium to geopolitical factors and tighter bank lending standards.
- Prime money fund assets increased $72.5 billion during the 3-month period ending March 2024. Total assets are $1,024 billion (up 35% year-over-year (YoY)).

Source: Bloomberg Financial L.P.; March 31, 2024

- **Current Positioning:**
  - Short and Short/Intermediate Government/ Credit models prefer high-quality investment grade corporate bonds and have a shorter duration relative to their respective benchmark.

Number of Hikes/Cuts Priced into Market



Source: Bloomberg Financial L.P.; March 31, 2024

No additional federal funds rate hikes are expected during this tightening cycle. The implied future policy rate indicates a rate cut by mid-2024 which matches our expectation.

The implied peak policy rate of 5.3% is now expected to decline throughout 2024 and into 2025 as real economic growth slows and inflation moderates further.

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

Source: Bloomberg Financial L.P.; March 31, 2024

At 57 bps, the index OAS is 5 bps tighter from last month end. Year-over-year, the index OAS is 44 bps tighter. Factors such as above-target inflation, a sluggish GDP outlook, a restrictive FOMC policy and current geopolitical events are minimally affecting spreads.

Corporate fundamentals are expected to weaken as we enter an economic slowdown. Financial conditions are accommodative even as the FOMC maintains its higher for longer pledge with respect to interest rates.

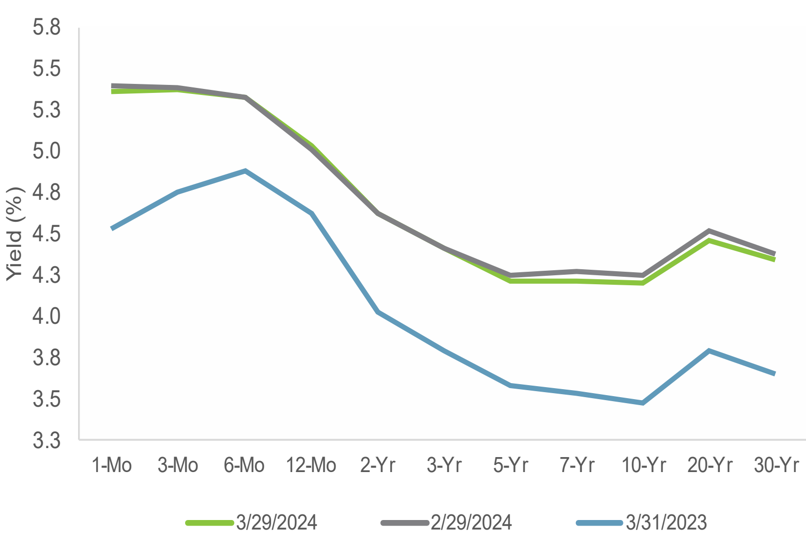
U.S. Treasury Market Update

- Treasury yields slightly decreased during March as the median FOMC forecast still shows three rate cuts in 2024. Recent economic data indicates firmer than expected inflation, a resilient labor market and strong household consumption thereby delaying the first Fed interest rate cut and possibly the duration of the easing cycle (fewer interest rate cuts).
- Implied inflation rates are higher year to date as disinflation slows on the heels of a resilient U.S. economy, higher energy prices, and a FOMC that is becoming a bit more balanced with respect to inflation (a bit less focused) and employment (a bit more focused).

Source: Bloomberg Financial L.P.; March 31, 2024

- **Current Positioning:**
  - Government models have a similar duration relative to their respective benchmark. We expect the yield curve to steepen with front-end yields decreasing which may not be the case for longer-term yields.

Treasury Yields

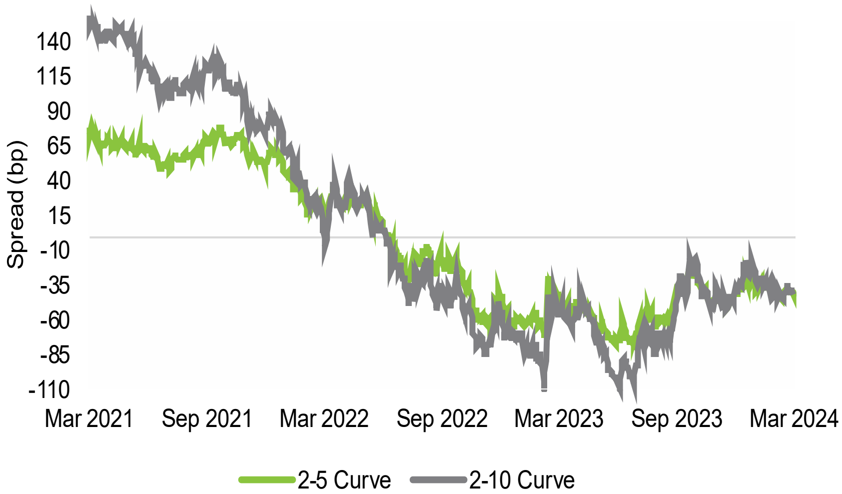


Source: Bloomberg Financial L.P.; March 31, 2024

During the month, Treasury yields decreased, and the yield curve flattened between 2- and 30-year tenors as the spread decreased 4 bps, to -28 bps. The yield gap between the 3-month T-Bill and 10-year Treasury is -117 bps, a 4 bp decrease from last month end.

We expect front-end yields to move lower from current levels as inflation eases and the FOMC begins to cut interest rates to maintain its current restrictive policy framework.

Treasury Curves



Source: Bloomberg Financial L.P.; March 31, 2024

The slope within the intermediate segment of the Treasury curve flattened during March as longer-term yields decreased more than short-term yields. The 2s5s curve, at -41 bps, decreased 3 bps while the 2s10s curve fell 5 bps, to -42 bps.

Investment Grade Credit Market Update

- Corporate bond spreads, at 90 bps, decreased 6 bps from last month end as one of the highest quarterly corporate bond issuance cycles ends. The credit curve was virtually unchanged as corporate bond spreads tightened in unison.
- We see many investors currently positioning for a period of low economic growth, with no recession, and assigning a lower risk premium to geopolitical factors, tighter bank lending standards and the FOMC's restrictive monetary policy.
- Looking forward, corporate fundamentals should remain positive but will continue to moderate from very strong levels as the economy enters a period of below-trend growth.

Source: Bloomberg Financial L.P.; March 31, 2024

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

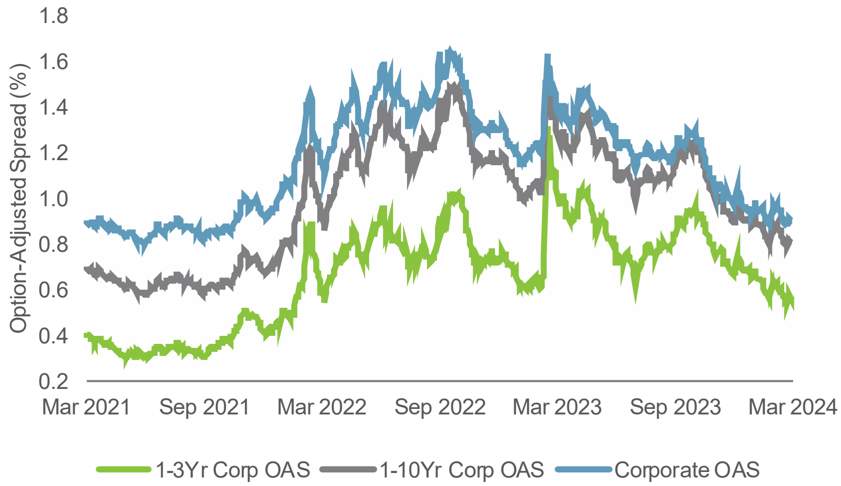
Corporate Spread & Issuance

Source: Bloomberg Financial L.P.; March 31, 2024

Corporate bond issuance was $145 billion in March, an approximately 40% increase from the same period last year. Q1 2024 issuance totaled approximately $537 billion. The cumulative 12-month change is 17.5%. The spread on the corporate bond index, at 90 bps, is 6 bps tighter on the month.

We expect 2024 issuance will be similar to 2023 ($1.2 trillion) so the cumulative 12-month change in corporate issuance should be near 0% by year end, assuming stable financing conditions.

Corporate Spreads by Maturity



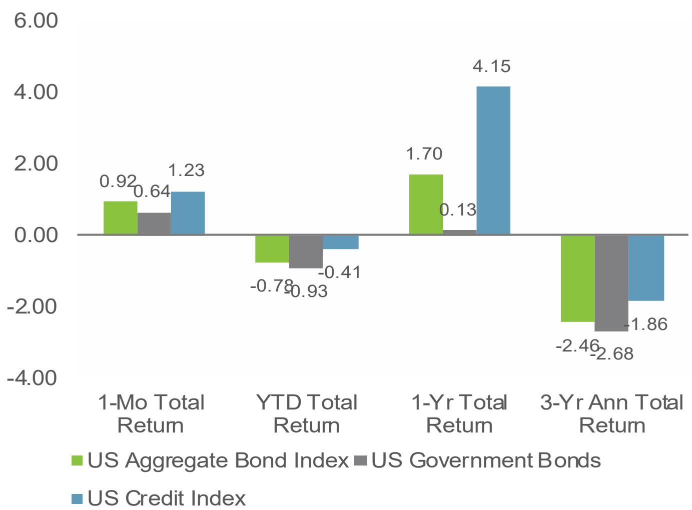
Source: Bloomberg Financial L.P.; March 31, 2024

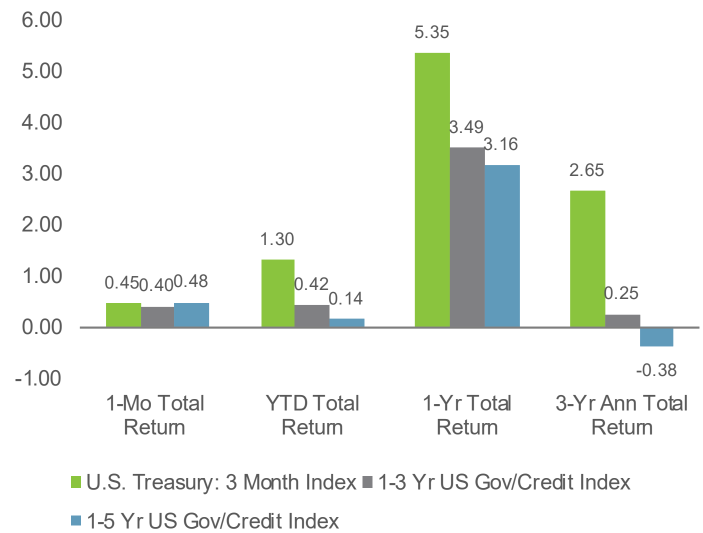
The Bloomberg U.S. Corporate Bond Index spread is 48 bps tighter year-over-year reflecting strong investor demand even with declining corporate profits, elevated inflation, tighter monetary policy, geopolitical events, and emerging signs of a slowing economy.

The corporate bond index OAS is 6 bps tighter since last month end, currently 90 bps.

Charts & Tables

Fixed Income Indices





Economic Figures & Short-term Rates

Description	Current	3-mo Ago	1-yr Ago	Next Release
Fed Funds (%)	5.50	5.50	5.00	5/1/2024
CPI (YoY %)	3.20	3.10	6.00	4/10/2024
PCE (YoY %)	2.50	2.70	5.20	4/26/2024
Unemployment Rate (%)	3.90	3.70	3.60	4/5/2024
GDP (YoY %)	3.10	2.90	0.70	4/25/2024
Retail Sales (YoY %)	1.50	3.60	5.60	4/15/2024
Leading Indicators (YoY %)	-6.30	-7.60	-7.00	4/18/2024
Housing Starts (000s)	1,521	1,512	1,436	4/16/2024

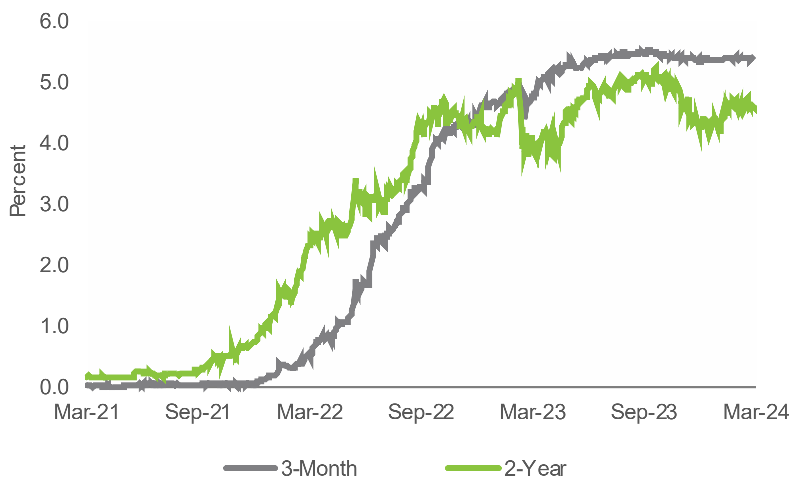
Description	Current	3-mo Ago	1-yr Ago
Fed Funds (%)	5.50	5.50	5.00
3-Mo U.S. Treasury Bill	5.37	5.34	4.75
6-Mo U.S. Treasury Bill	5.32	5.26	4.88
USD O/N Govt. Repo	5.39	5.42	4.88
U.S. 30-Day Comm Paper*	5.35	5.31	4.93
U.S. 90-Day Comm Paper*	5.41	5.37	5.09

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

Source for all charts and tables: Bloomberg Financial L.P.; March 31, 2024

Charts & Tables - continued

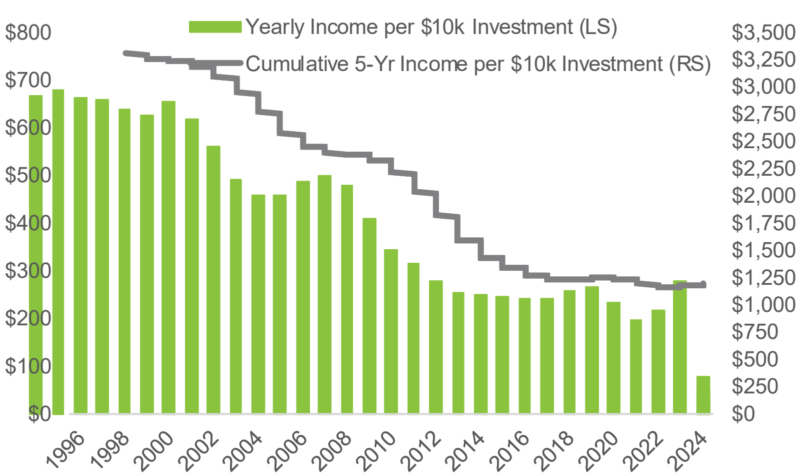
Treasury Market



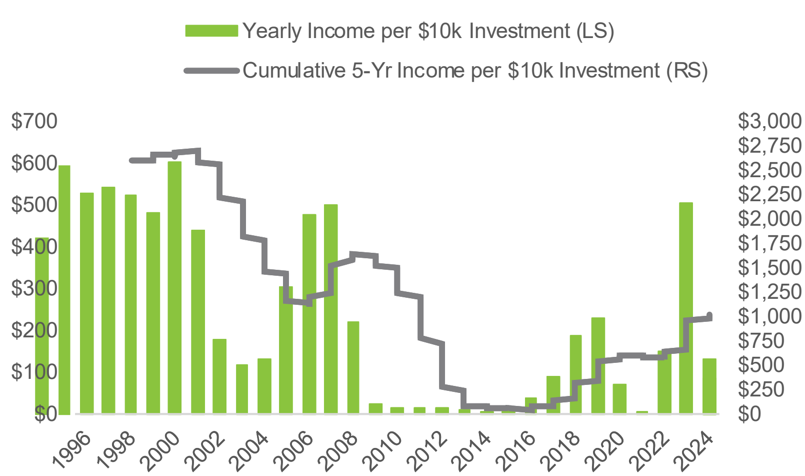
Change in Yield Curve (basis points)				
Maturity	Yield Curve (%)	1-Mo Ago	3-Mo Ago	1-Yr Ago
1-Mo	5.36	-4	-5	82
3-Mo	5.37	-1	3	62
6-Mo	5.32	0	7	44
12-Mo	5.03	3	26	41
2-Yr	4.62	0	37	59
3-Yr	4.41	-1	40	62
5-Yr	4.21	-3	37	64
7-Yr	4.21	-6	33	67
10-Yr	4.20	-5	32	73
20-Yr	4.45	-6	26	66
30-Yr	4.34	-4	32	69

Investment Income per $10,000 Invested in Index (No reinvestment of income)

Bloomberg U.S. Intermediate Government/Credit Index



Bloomberg U.S. 3 Month Treasury Bill Index



Source for all charts and tables: Bloomberg Financial L.P.; March 31, 2024

Charts & Tables - continued

Fixed Income Model Characteristics – Summary Level

Ladder Models	TD 1-3 Year Treasury Bond Ladder Managed Account	Bloomberg US Treasury 1-3 Year Index	TD 1-5 Year Treasury Bond Ladder Managed Account	Bloomberg US Treasury 1-5 Year Index	TD 1-5 Year A Minimum Corporate Bond Ladder Managed Account	Bloomberg US Corporate Bond 1-5 Year Index	TD 1-5 Year BBB Minimum Corporate Bond Ladder Managed Account	Bloomberg US Corporate Bond 1-5 Year Index
MINIMUM ACCOUNT SIZE	$100,000	-	$100,000	-	$100,000	-	$100,000	-
YIELD TO WORST	4.70%	4.68%	4.52%	4.52%	4.91%	5.21%	5.07%	5.21%
YEARS TO MATURITY	1.9	2.0	2.9	2.9	3.0	2.9	3.2	2.9
DURATION	1.8	1.9	2.7	2.7	2.7	2.6	2.8	2.6
QUALITY	AA1	AA1	AA1	AA1	A2	A3	BAA1	A3
NUMBER OF HOLDINGS	8	96	17	157	43	2,819	49	2,819

Ladder Models	TD 1-10 Year Treasury Bond Ladder Managed Account	Bloomberg US Treasury 1-10 Year Index	TD 1-10 Year A Minimum Corporate Bond Ladder Managed Account	Bloomberg US Intermediate Corporate Bond Index	TD 1-10 Year BBB Minimum Corporate Bond Ladder Managed Account	Bloomberg US Intermediate Corporate Bond Index
MINIMUM ACCOUNT SIZE	$100,000	-	$100,000	-	$100,000	-
YIELD TO WORST	4.35%	4.43%	4.89%	5.22%	5.02%	5.22%
YEARS TO MATURITY	5.4	4.1	5.5	4.8	5.4	4.8
DURATION	4.8	3.7	4.7	4.0	4.6	4.0
QUALITY	AA1	AA1	A2	A3	A3	A3
NUMBER OF HOLDINGS	36	204	49	4,983	47	4,983

Active Models	TD Short Government/Corporate Bond (A Min) Managed Account Institutional	ICE BofA 1-3 Year AAA-A US Corporate & Government Index	TD Short/Intermediate Government Bond Managed Account	ICE BofA 1-5 Year US Treasury & Agency Index	TD Short/Intermediate Government/Corporate Bond Managed Account	ICE BofA 1-5 Year AAA-A US Corporate & Government Index	TD Short/Intermediate Government/Corporate Bond A2 Min No Foreign Restricted Managed Account	ICE BofA US Issuers 1-5 AAA-A US Corporate & Government Index
MINIMUM ACCOUNT SIZE	$250,000	-	$250,000	-	$250,000	-	$250,000	-
YIELD TO WORST	4.76%	4.79%	4.54%	4.54%	4.62%	4.66%	4.58%	4.61%
YEARS TO MATURITY	1.9	1.9	2.8	2.8	2.8	2.8	2.8	2.8
DURATION	1.8	1.8	2.6	2.6	2.5	2.6	2.6	2.6
QUALITY	AA2	AA2	AA1	AA1	AA2	AA2	AA2	AA1
NUMBER OF HOLDINGS	24	1,760	20	511	41	2,914	37	1,728

Active Models	TD Intermediate Government Bond Managed Account	Bloomberg U.S. Government Intermediate Bond Index	TD Intermediate Government/Credit A-Min Bond Managed Account	Bloomberg U.S. Intermediate Government/Credit A or Higher Bond Index	TD Intermediate Government/Corporate Bond Managed Account	Bloomberg U.S. Intermediate Government/Credit Bond Index	TD Long Government/Corporate Bond Managed Account	Bloomberg U.S. Government/Credit Bond Index
MINIMUM ACCOUNT SIZE	$250,000	-	$250,000	-	$250,000	-	$250,000	-
YIELD TO WORST	4.45%	4.44%	4.56%	4.57%	4.66%	4.70%	4.73%	4.76%
YEARS TO MATURITY	4.0	4.1	4.1	4.2	4.2	4.3	8.3	8.9
DURATION	3.7	3.7	3.7	3.7	3.8	3.8	6.3	6.3
QUALITY	AA1	AA1	AA2	AA1	AA3	AA2	A1	AA2
NUMBER OF HOLDINGS	38	574	71	3,228	109	6,049	133	9,486

Institutional Model	TD Core Bond Managed Account Institutional	Bloomberg U.S. Aggregate Bond Index
MINIMUM ACCOUNT SIZE	$10,000,000	-
YIELD TO WORST	4.85%	4.85%
YEARS TO MATURITY	8.5	8.4
DURATION	6.3	6.2
QUALITY	AA3	AA2
NUMBER OF HOLDINGS	131	13,530

Source for all charts and tables: Bloomberg Financial L.P.; March 31, 2024

Talking Points

TD Asset Management:

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