TD Asset Management

U.S. Liquidity Management

Commentary

2025 Q1

For the quarter ended March 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 gross domestic product (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 has been resilient but is expected to weaken during 2025. The Federal Open Market Committee (FOMC) is expected to slow the pace of rate reductions in 2025 due to elevated inflation readings, a resilient 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 increased 2.4% in Q4 2024 (3.1% in Q3 2024). Household consumption was the dominant driver to growth. Equipment spending and inventories were the main detractors to growth. Domestic demand is still relatively solid. Additionally, the pace of nominal GDP slowed to 4.8% from 5.0%.
- The current federal funds target range remained at 4.25%-4.50% after the FOMC's latest meeting. 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.
- During the month, the U.S. Treasury curve steepened – shorter-term yields decreased while longer-term yields increased. Concerns regarding the Department of Government Efficiency (DOGE) related layoffs of federal employees, a slowdown in consumption data, and both elevated uncertainty and concern around the magnitude of trade policy changes are factors in this rate move.
- Corporate bond spreads widened month over month for the same factors highlighted above as markets demonstrate concern that volatile trade policy may impact business investment and consumption amidst an already decelerating growth backdrop.

Investment Professional:

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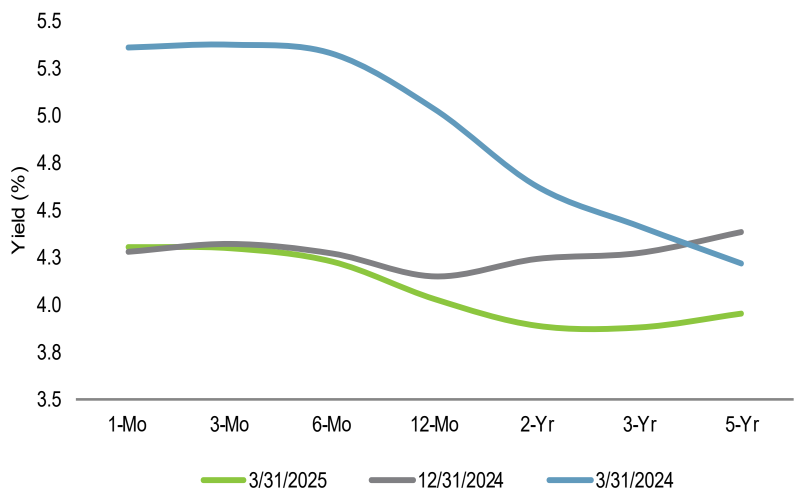
Vice President & Director

Russell Wald, CFA
Vice President

Source: TD Asset Management, TD Economics & Bloomberg Financial L.P.; March 31, 2025

Front-end Treasury Yields



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

Ultra-short yields remain anchored to FOMC policy which was unchanged during the quarter. Rates farther out the curve are less anchored and, therefore, express more forward-looking economic expectations.

During the quarter, there was a shift toward much weaker real growth. Concerns regarding DOGE-related layoffs of federal employees, a slowdown in consumption data, and uncertain tariff policy have been factors in declining rates.

We expect yields to move lower from current levels as the 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.

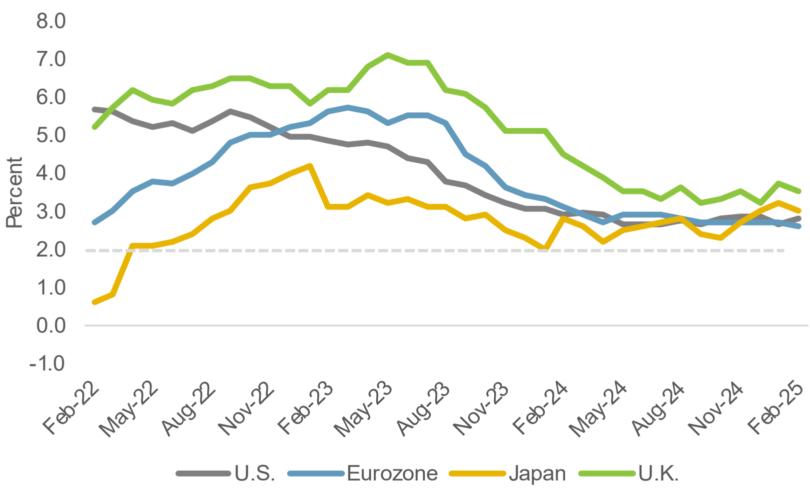
Macro Update

- U.S. real GDP increased 2.4% in Q4 2024 (3.1% in Q3 2024). Household consumption was the dominant driver to growth. Equipment spending and inventories were the main detractors to growth. U.S. final sales to private domestic purchasers (a proxy for domestic demand) remains solid. Quarterly measures of inflation remain above the FOMC's target rate.
- We expect U.S. growth (real GDP) to be below trend (~2.0%) in 2025 amid uncertain trade and fiscal policies. Weak Q1 consumption data, partly due to economic uncertainly, will not be as strong a driver of growth as experienced in 2024. Recent evidence shows that the labor market may be weakening.

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

- **Our Long-Term Views:**
  - U.S. growth remains positive while global economic growth remains relatively weak, especially in the Eurozone. Short-term interest rates are now moving lower in many developed markets as inflation moderates.
  - 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.

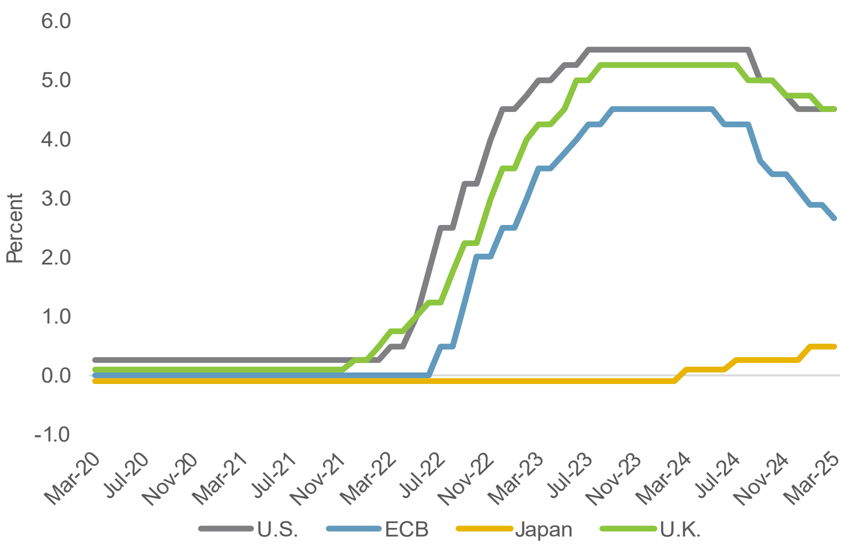
Achieving and remaining at the FOMC's two-percent target rate on a sustained basis may be a challenge.

U.S. Central Bank Update

- The FOMC held the federal funds rate steady at its March meeting. The current range is 4.25%-4.50%. The pace of rate cuts will slow in 2025 as economic growth remains solid and the policy rate is less restrictive. The FOMC is mindful of heightened uncertainty within its economic outlook.
- The Federal Reserve's (the Fed) summary of economic projections for 2025 show 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. The GDP growth and inflation outlooks will most likely be modified when the administration's economic policies, specifically tariffs, are known and implemented.

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

Central Bank Policy Rates



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 Fed reduced the federal funds rate by 1% since it began cutting rates in September. The upper bound of its target range is 4.50% (as shown in graph).

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

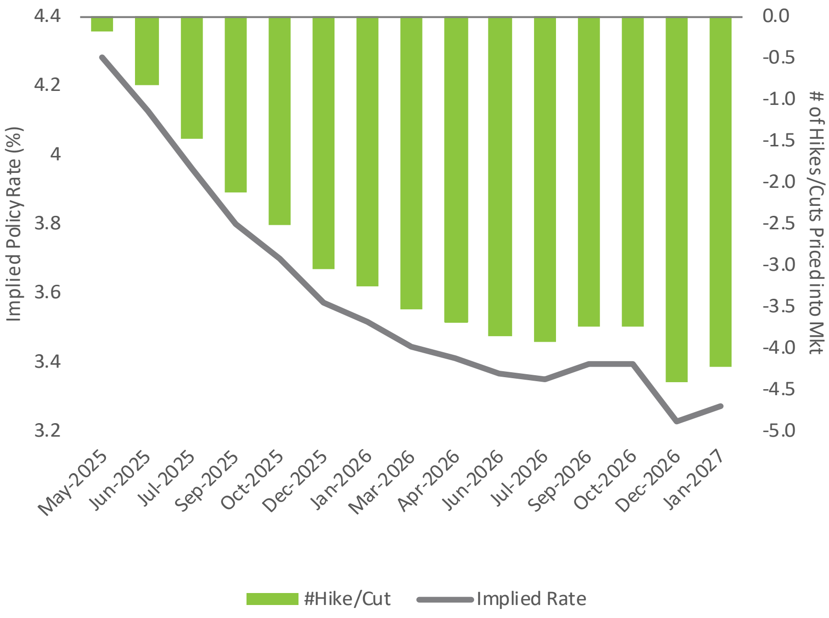
Cash/Short-term Market Update

- Short-end Treasury yields decreased during the quarter. Concerns regarding material layoffs of federal employees, a slowdown in consumption data, and uncertain tariff policy have been factors in declining rates.
- Short-term credit spreads widened 6 basis points (bps), to 58 bps, during the quarter. 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 $57.7 billion during the 3-month period ending March 2025. Total assets are $1.137 trillion, up 11% year over year (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.

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

Number of Hikes/Cuts Priced into Market



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% 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.

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

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

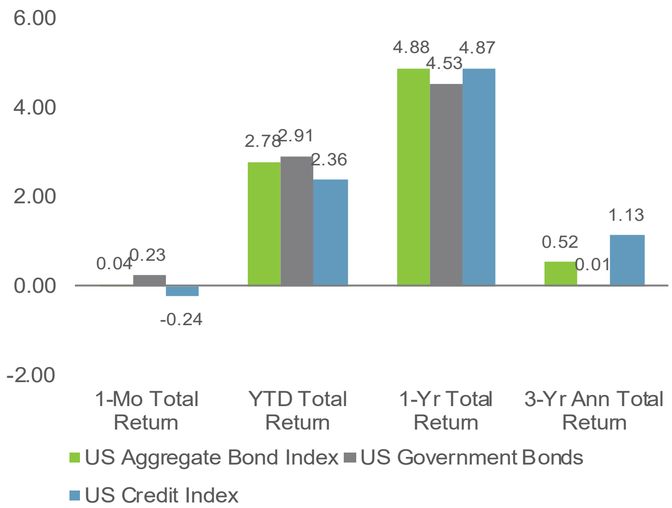
At 58 bps, the index OAS is 6 bps wider from last quarter end. Year-over-year, the index OAS is 1 bps wider. Factors which may benefit spreads are moderating inflation, trend GDP growth outlook, and an easing FOMC policy framework. Uncertainty pertaining to trade and fiscal policies are negatively affecting corporate bond spreads.

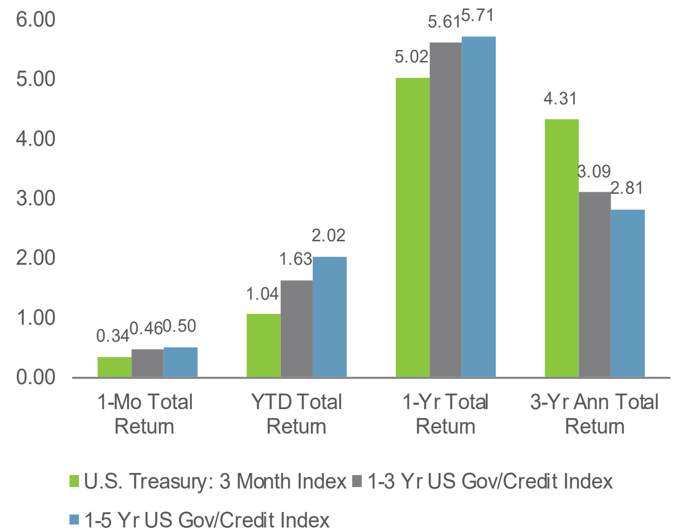
Corporate fundamentals are expected to weaken from strong footing as growth slows to below trend. Financial conditions are not overly restrictive as the FOMC is easing policy restriction and spreads have risen from near multiyear tight levels.

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

Charts & Tables

Fixed Income Bond Indices





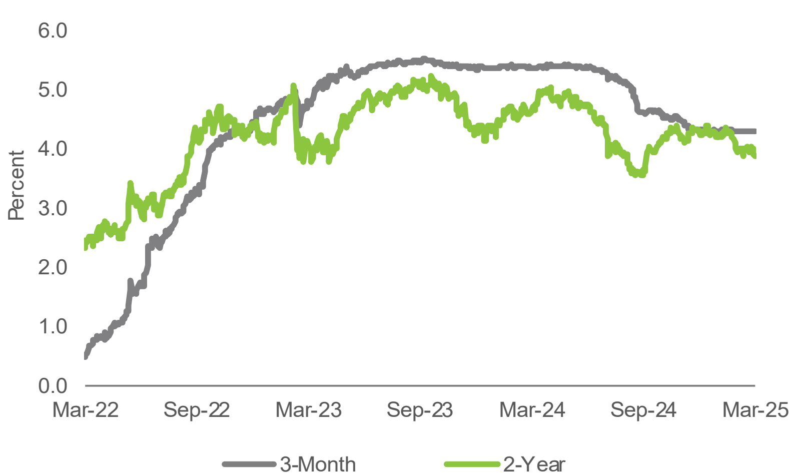
Economic Figures & Short-term Rates

Description	Current	3-mo Ago	1-yr Ago	Next Release
Fed Funds (%)	4.50	4.50	5.50	5/7/2025
CPI (YoY %)	2.80	2.70	3.20	4/10/2025
PCE (YoY %)	2.50	2.50	2.60	4/30/2025
Unemployment Rate (%)	4.10	4.20	3.90	4/4/2025
GDP (YoY %)	2.50	2.70	3.20	4/30/2025
Retail Sales (YoY %)	3.10	4.00	2.10	4/16/2025
Leading Indicators (YoY %)	-3.10	-3.00	-6.50	4/21/2025
Housing Starts (000s)	1,501	1,305	1,546	4/17/2025

Description	Current	3-mo Ago	1-yr Ago
Fed Funds (%)	4.50	4.50	5.50
3-Mo U.S. Treasury Bill	4.30	4.32	5.37
6-Mo U.S. Treasury Bill	4.23	4.27	5.32
USD O/N Govt. Repo	4.52	4.50	5.39
U.S. 30-Day Comm Paper*	4.31	4.30	5.35
U.S. 90-Day Comm Paper*	4.33	4.39	5.41

*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	4.31	0	2	-105
3-Mo	4.30	0	-2	-107
6-Mo	4.23	-5	-4	-110
12-Mo	4.03	-6	-13	-100
2-Yr	3.89	-11	-36	-74
3-Yr	3.88	-10	-40	-53
5-Yr	3.95	-7	-43	-26
7-Yr	4.08	-4	-41	-13
10-Yr	4.21	0	-37	1
20-Yr	4.60	7	-26	15
30-Yr	4.57	8	-21	23

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

Liquidity

TD Asset Management:

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