PIMCO

Why Bonds Now? 3 Key Charts

We know that some investors are hesitant to invest in bonds in the current environment. These 3 charts illustrate why adding bonds to your portfolio right now could be a wise decision.

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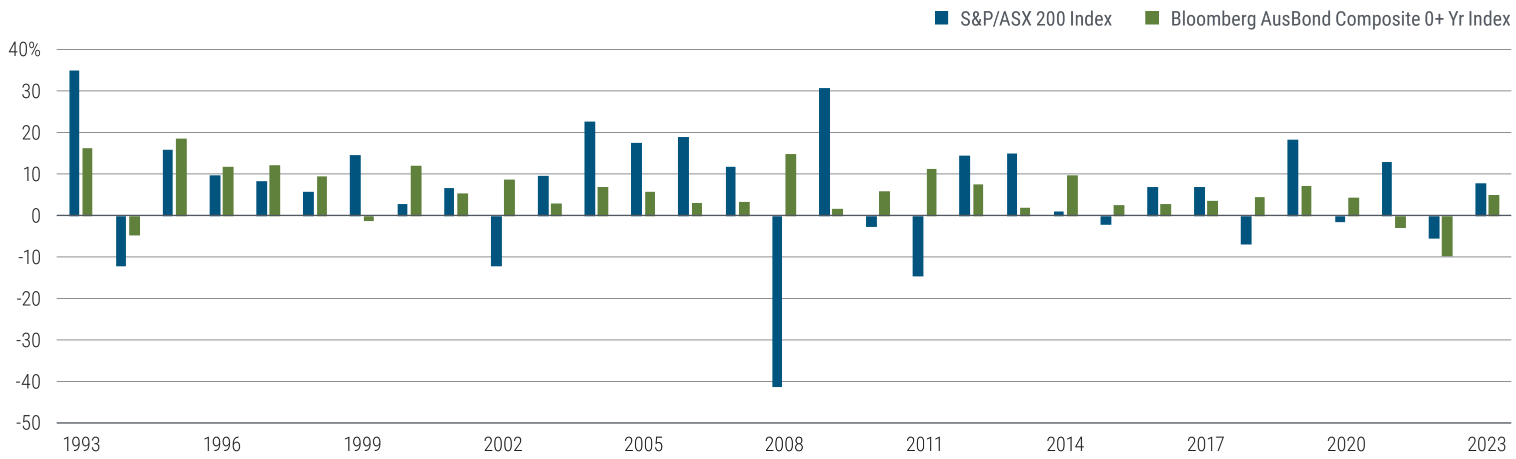
PERSPECTIVE 1

"Bonds underperformed in 2022 and there's still a lot of market uncertainty. Why should I invest in them now?"

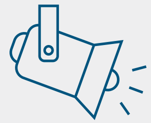
Bond market declines have been smaller and rarer than stock market declines



As of 31 January 2024. SOURCE: Bloomberg, PIMCO. **Past performance is not a guarantee or a reliable indicator of future results**. The S&P/ASX 200 (Bloomberg ticker AS51) is Australia's leading share market index and contains the top 200 ASX listed companies by float-adjusted market capitalisation. The Bloomberg AusBond Composite 0+ Yr (BACM0) Index is engineered to measure the Australian debt market and is a composite of Treasury, Semi-Govt, Supra/Sov, and Credit indices.

BOTTOM LINE:

Bonds faced a tough year in 2022, but this was an outlier in the broader context of market history, where bonds have played a key role in portfolio diversification.



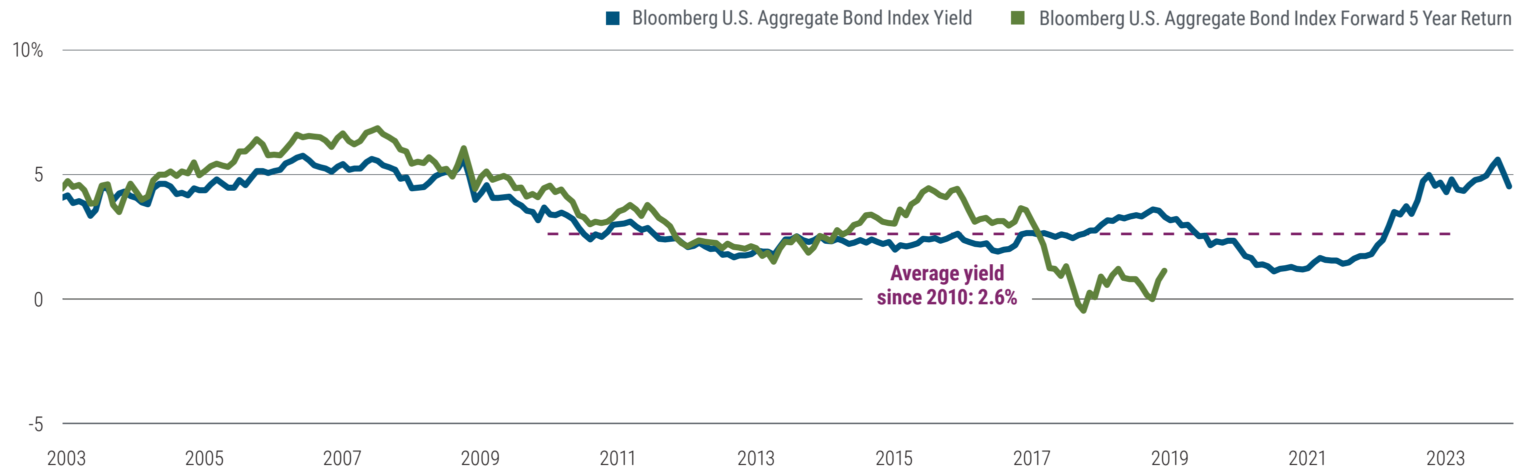
What this chart tells us:

- Bonds faced a tough year in 2022 but this was an outlier in the broader context of market history.
- It's rare for stocks and bonds to have negative returns in the same year.
- Over the last 30 years, bond market declines have been smaller and rarer than stock market declines.
- Bonds have been an important portfolio diversifier over the longer term, helping to mitigate volatility and deliver income and capital appreciation.

PERSPECTIVE 2

"Term deposit rates are really attractive right now. Why shouldn't I take advantage of them?"

Higher bond returns have historically followed higher starting yields



As of 31 January 2024. Source: Bloomberg, PIMCO. **Past performance is not a guarantee nor a reliable indicator of future performance.** Yield and return are for the Bloomberg U.S Aggregate Bond Index. It is not possible to invest directly in an unmanaged index. Chart is provided for illustrative purposes and is not indicative of the past or future performance of any PIMCO product.

BOTTOM LINE:

If your funds are tied up in a term deposit, you might miss the chance to secure current higher bond yields and the related potential for price appreciation.

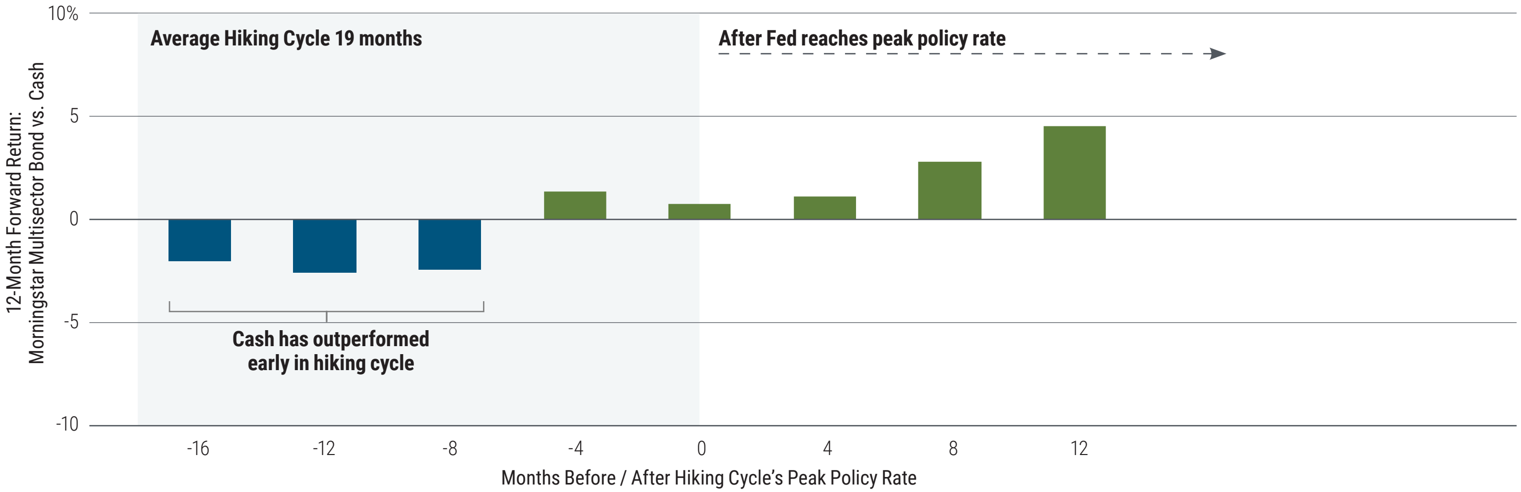
What this chart tells us:

- There is a strong correlation between yields at the time of bond purchase and the five-year return on those bonds.
- The higher the yield you lock in now, the greater potential for your investment to accumulate returns over time.
- If your funds are tied up in a term deposit now, while starting yields are higher than they have been in recent history, you risk missing the chance of securing these higher bond yields and the related potential for price appreciation.

PERSPECTIVE 3

"I'm waiting until the RBA starts cutting rates before I invest in bonds again."

Bond returns begin to outperform cash before interest rates peak



As of 31 January 2024. SOURCE: Bloomberg, PIMCO. **Past performance is not a guarantee or a reliable indicator of future results**. To maximize data availability back to 1978 we use a Morningstar Multisector Bond Portfolio. Hiking cycles are defined as periods where the Federal Reserve embarks on a sustained path of increasing the target Fed Funds rate and/or target range. We define the end of a hiking cycle as the month where the Fed reaches its peak policy rate for that cycle (i.e., it either pauses rate hikes or cuts). Hiking cycles include (start to peak), 1980 (Jul '80 to May '81), 1983 (Feb '83 to Aug '84), May 1988 (Feb '88 to Mar '89), 1994 (Jan '94 to Feb '95), 1999 (May '99 to May '00), 2004 (May '04 to Jun '06) and 2015 (Nov '15 to Dec '18).

BOTTOM LINE:

Timing the market is notoriously difficult, and waiting for rates to peak can result in missed opportunities.

What this chart tells us:

- Bond returns underperform cash while rates are rising, but start to turn positive before interest rates peak.
- Bond returns start to strongly outperform cash around 8 months after the peak is reached.
- Consensus is growing among financial experts that inflation, and therefore cash rates, may have reached their peak.
- Timing the market is difficult. Waiting for the RBA to move could result in missed opportunities.

Investing in bonds now can offer you the chance to earn more than term deposits and protect your portfolio against economic uncertainty. To understand more about how bonds can fit into your personal financial plan and help achieve your long-term objectives, talk to your financial adviser today.

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