

Risk-Off, Yield-On

PIMCO believes an extreme shift in macroeconomic conditions over the course of 2022 and the corresponding impact on financial markets have significantly altered the relative attractiveness of asset classes. Markets are moving away from a “TINA” world (where “there is no alternative” to equities) to one in which fixed income is increasingly appealing.

Yet, as we navigate a period of elevated inflation and an economic slowdown, our starting point is one of caution. PIMCO’s business cycle models forecast a U.S. recession in the next year, and the U.S. Federal Reserve is pressing ahead with policy tightening despite increasing strain in financial markets.

Here is a summary of how we are positioning multi-asset portfolios in light of our global economic outlook.

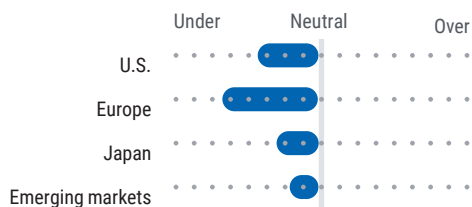
OVERALL RISK



Our view is that the global economy will enter a significant slowdown, with some countries tipping into recession. We are therefore underweight risk. We believe most asset classes are not yet fully discounting the impact of sticky inflation, persistent interest rate hikes, and lower growth.

POSITIONING

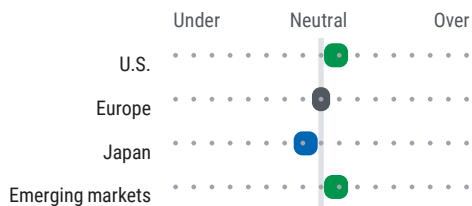
EQUITIES



OPPORTUNITIES

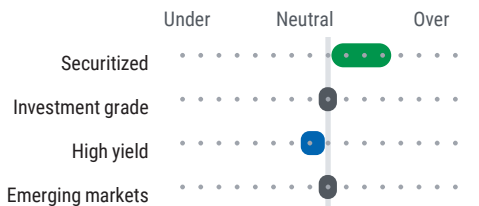
We maintain a negative outlook for equities given elevated recessionary risk. Valuations are still far above levels consistent with our macro outlook, and Bloomberg’s consensus estimates for 2023 earnings growth remain too optimistic. Among developed markets (DMs), neither the U.S. nor Europe is attractive. Synchronized policy tightening also makes emerging market (EM) equities unattractive. Among sectors, we prefer defensive areas, such as healthcare, versus cyclicals such as industrials.

RATES



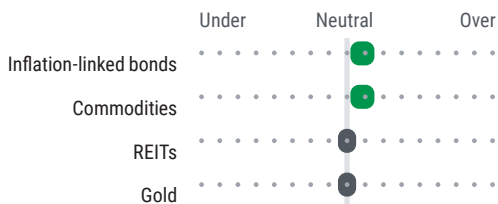
Duration has historically been a valuable hedge in uncertain times, but sticky inflation keeps us close to neutral. Duration should become increasingly attractive; however, with the first opportunities in the most rate-sensitive DMs and certain EMs that hiked early. Duration should also become attractive in the U.S. as the Fed brings the hiking cycle to a close and as economic fundamentals deteriorate further.

CREDIT



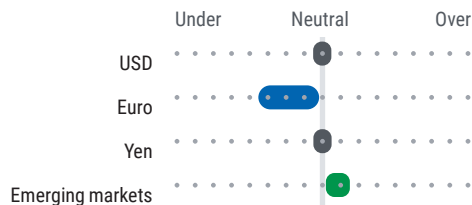
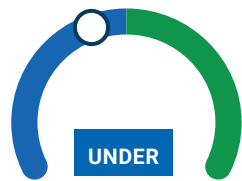
We believe credit will become attractive again after yields stabilize – likely at higher levels than we’ve seen in the last decade. In corporate credit, we think higher-quality issuers are best positioned to navigate cyclical pressures, and lower-quality and cyclically sensitive issuers will suffer. U.S. agency mortgage-backed securities (MBS) with high coupons could provide attractive returns, as they are of higher average quality and tend to provide good liquidity at an attractive spread.

REAL ASSETS



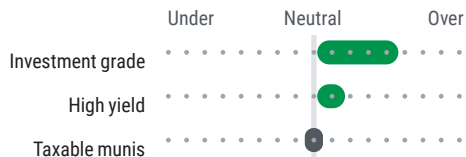
We currently favor select assets within commodities markets, which should provide an inflation hedge. However, as we progress through 2023, inflation is likely to moderate and economic growth will turn negative – a challenging scenario for commodities historically. Our view on real estate investment trusts (REITs) is neutral, with a focus on relative value opportunities. Lastly, we maintain a balanced allocation to inflation-linked bonds as we expect inflation to be sticky in the near term.

CURRENCIES



We believe the U.S. dollar can continue to outperform in the short term. However, overvaluation concerns should begin to prevail when peak rates are reached. The euro faces structural challenges, particularly in peripheral economies, which may discourage investors even as rates rise, while a resolution to the war in Ukraine (not our base case) would present an upside risk. We find select EM currencies attractive relative to DM, but overall we maintain modest overweights given prevailing macro conditions.

MUNIS



We believe munis offer an attractive value proposition given our outlook for a shallow U.S. recession. Federal tax-exempt muni bonds provide diversification benefits with lower correlations to risk assets historically, and lower default rates relative to similarly rated corporate bonds. Investment grade yields are at levels not seen in over a decade while relative value is attractive. Pockets of value within the lower quality space persist and asset class fundamentals remain strong.

Past performance is not a guarantee or a reliable indicator of future results.

Investing in the **bond market** is subject to risks, including market, interest rate, issuer, credit, inflation risk, and liquidity risk. The value of most bonds and bond strategies are impacted by changes in interest rates. Bonds and bond strategies with longer durations tend to be more sensitive and volatile than those with shorter durations; bond prices generally fall as interest rates rise, and low interest rate environments increase this risk. Reductions in bond counterparty capacity may contribute to decreased market liquidity and increased price volatility. Bond investments may be worth more or less than the original cost when redeemed. **Inflation-linked bonds (ILBs)** issued by a government are fixed income securities whose principal value is periodically adjusted according to the rate of inflation; ILBs decline in value when real interest rates rise. Income from **municipal bonds securities** may involve heightened risk due to currency fluctuations, and economic and political risks, which may be enhanced in emerging markets. **Currency rates** may fluctuate significantly over short periods of time and may reduce the returns of a portfolio. **Mortgage- and asset-backed securities** may be sensitive to changes in interest rates, subject to early repayment risk, and their value may fluctuate in response to the market's perception of issuer creditworthiness; while generally supported by some form of government or private guarantee, there is no assurance that private guarantors will meet their obligations. **High yield, lower-rated securities** involve greater risk than higher-rated securities; portfolios that invest in them may be subject to greater levels of credit and liquidity risk than portfolios that do not. **Commodities** contain heightened risk, including market, political, regulatory and natural conditions, and may not be appropriate for all investors. **REITs** are subject to risk, such as poor performance by the manager, adverse changes to tax laws or failure to qualify for tax-free pass-through of income. **Equities** may decline in value due to both real and perceived general market, economic and industry conditions. **The credit quality** of a particular security or group of securities does not ensure the stability or safety of an overall portfolio. **Diversification** does not ensure against loss.

Statements concerning financial market trends or portfolio strategies are based on current market conditions, which will fluctuate. There is no guarantee that these investment strategies will work under all market conditions or are appropriate for all investors and each investor should evaluate their ability to invest for the long term, especially during periods of downturn in the market. Investors should consult their investment professional prior to making an investment decision. Outlook and strategies are subject to change without notice.

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