PIMCO

Ahead of the Curve

Bonds are offering investors attractive opportunities right now

IMPORTANT NOTICE
Please note that the following contains the opinions of the manager as of the date noted, and may not have been updated to reflect real time market developments. All opinions are subject to change without notice.

Q3 2024

Explore today's investment landscape and opportunities.

Many investors are sitting in cash, waiting to see when the Fed will cut rates. Rather than trying to time the market, investors should consider getting ahead of changes by moving into bonds.

Our View

Bonds may do well across a range of environments, regardless of the timing on rate cuts.

Key Takeaways

1 The rate of inflation is getting closer to the Fed's target

2 Higher returns have historically followed higher yields

3 As hiking cycles have ended, a reversal in fixed income returns has tended to follow

4 Post peak bond rallies have historically played out over several years

5 Many fixed income sectors historically have outperformed cash following peak rates

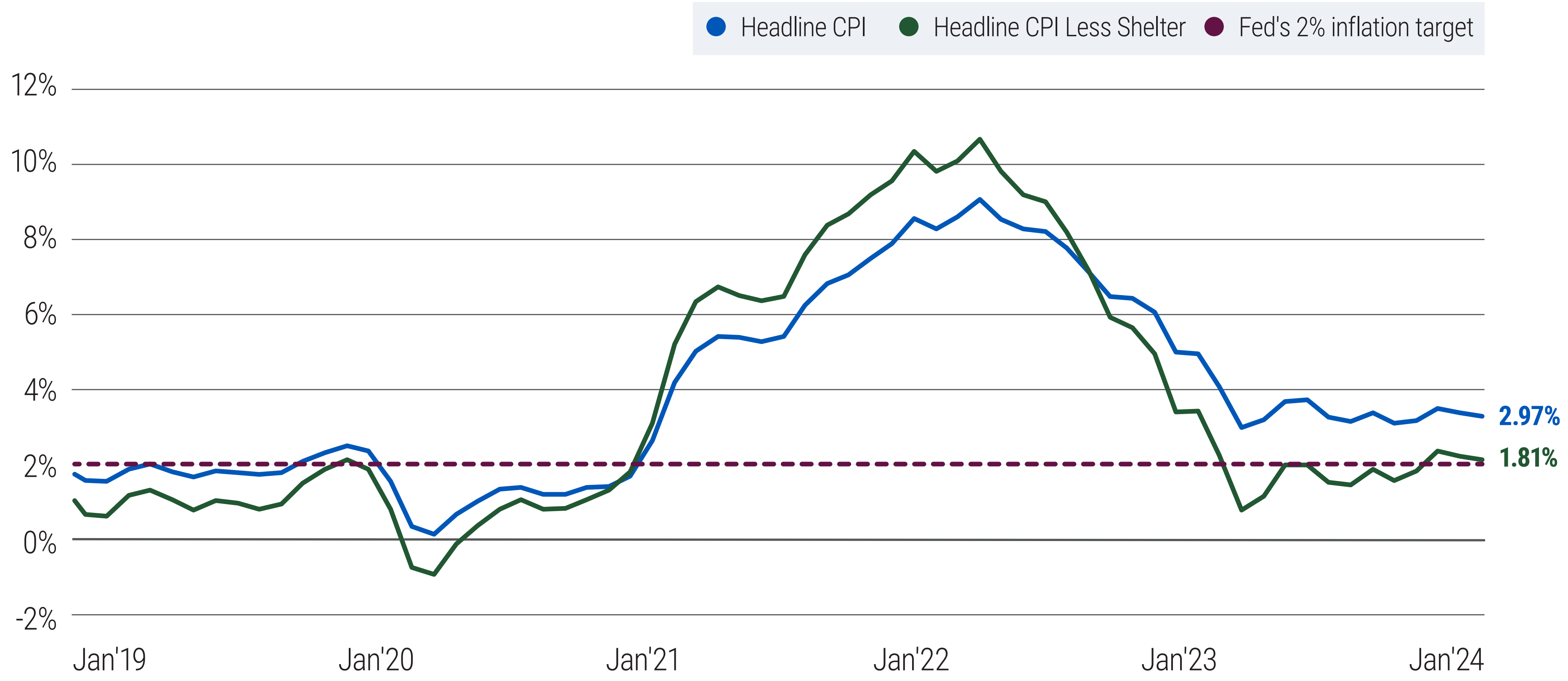
6 Why Yield Matters: Higher yields anchor return potential across a range of scenarios

7 The Active Advantage: Passive may make sense for equities, but bonds are different

As of June 2024. Source: PIMCO
Refer to Appendix for additional outlook and risk information.

The rate of inflation is getting closer to the Fed's target

Headline CPI less shelter has been 2% annualized since May 2023



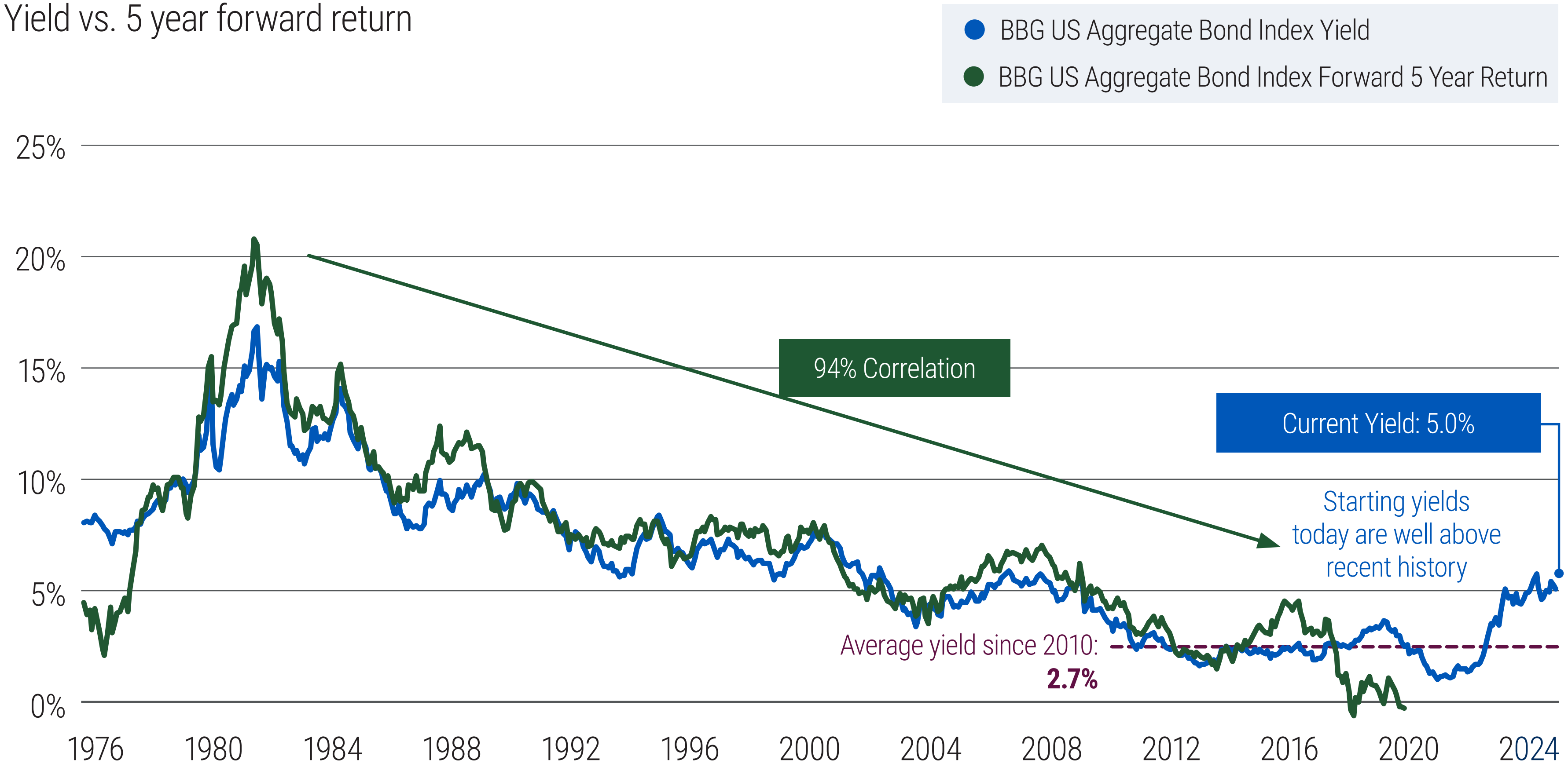
As of 30 June 2024. Source: Haver, PIMCO.
Refer to Appendix for additional forecast and outlook information.

WHAT IT MEANS FOR INVESTORS

Inflation has decreased close to the Federal Reserve's target. While this doesn't mean prices are going down, they are rising less quickly and may soon allow the Fed to lower rates from restrictive levels.

Higher returns have historically followed higher yields

Yield vs. 5 year forward return



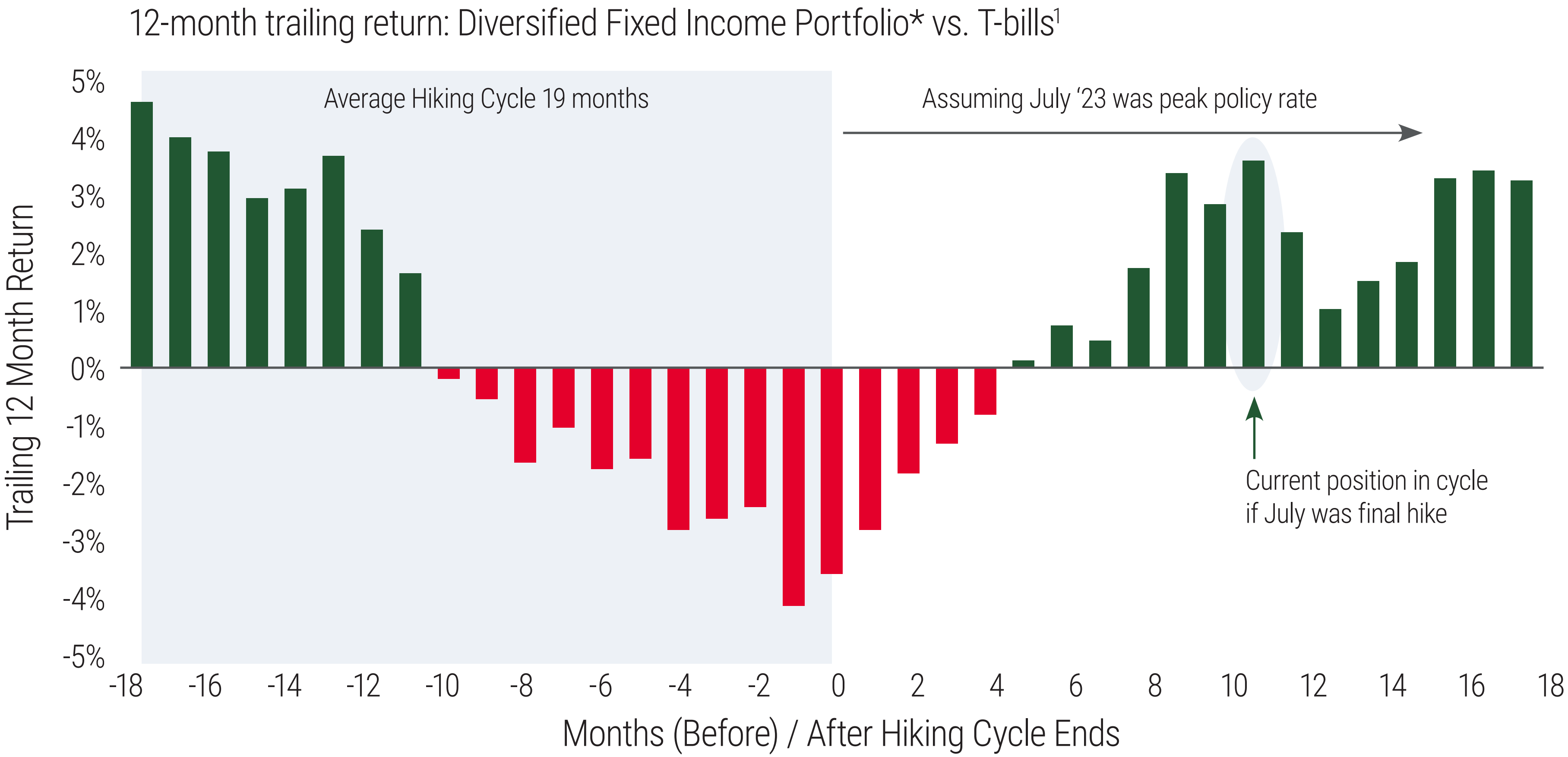
Past performance is not a guarantee nor a reliable indicator of future performance. Chart is provided for illustrative purposes and is not indicative of the past or future performance of any PIMCO product.
As of 30 June 2024. SOURCE: Bloomberg, PIMCO. Yield and return are for the Bloomberg U.S. Aggregate Bond Index. It is not possible to invest directly in an unmanaged index.
Refer to Appendix for additional correlation, index, investment strategy, outlook and risk information.

WHAT IT MEANS FOR INVESTORS

With starting yields nearly two times higher than the average yield since 2010, investors could stand to benefit from attractive return potential in fixed income investments going forward.

As hiking cycle have ended, a reversal in fixed income returns has tended to follow

Fixed income performance across hiking cycles



As of 30 June 2024. SOURCE: Bloomberg, PIMCO.

* To maximize data availability back to 1978 we utilize a blend of Morningstar Category Indices comprised of 40% Core Plus / 40% Multisector Bond / 20% Short-term Bond.

1 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), 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).

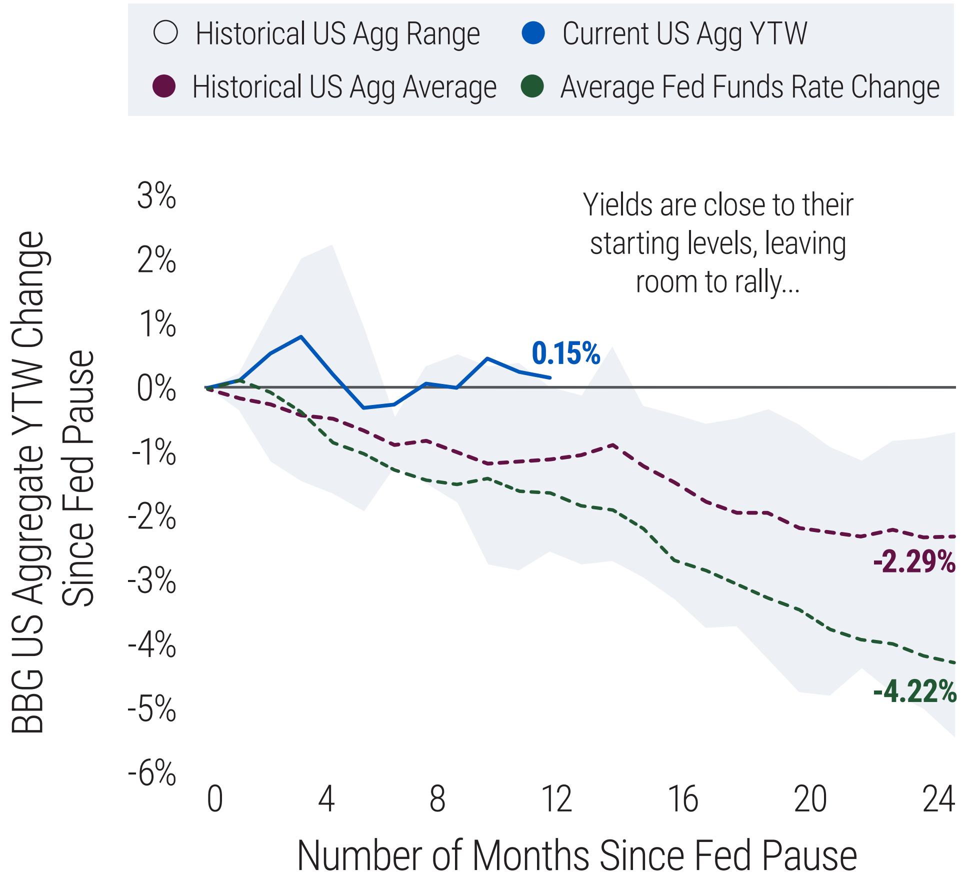
Refer to Appendix for additional forecast, index, Morningstar category, outlook, and risk information.

WHAT IT MEANS FOR INVESTORS

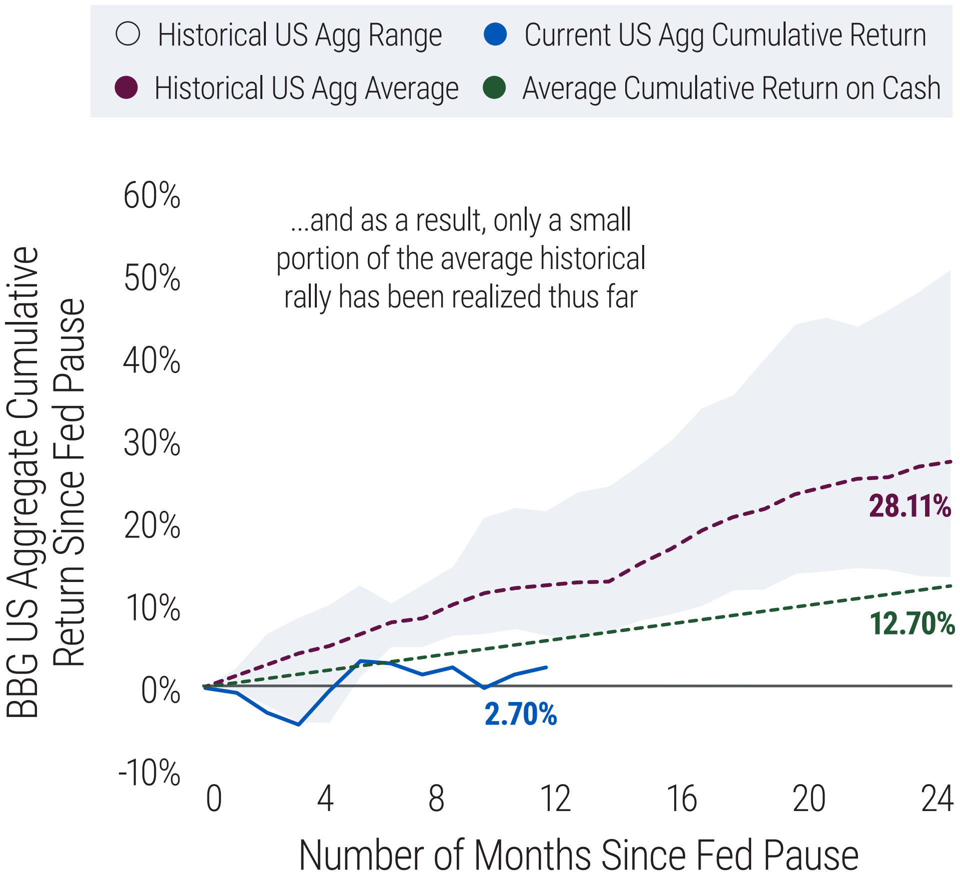
At this point in historical hiking cycles, fixed income tends to outperform cash. Eventual interest rate cuts by the Fed historically support fixed income performance while also eroding cash returns.

Post peak bond rallies have historically played out over several years

Historically, yields have fallen significantly following the end of a hiking cycle…



… which has driven attractive returns over the coming months and years



WHAT IT MEANS FOR INVESTORS

We are likely at the stage of the hiking cycle where investors in traditional fixed income historically outperformed cash. Investors sitting in cash may want to consider return potential of other fixed income sectors.

As of 30 June 204. Source: Barclays, PIMCO.
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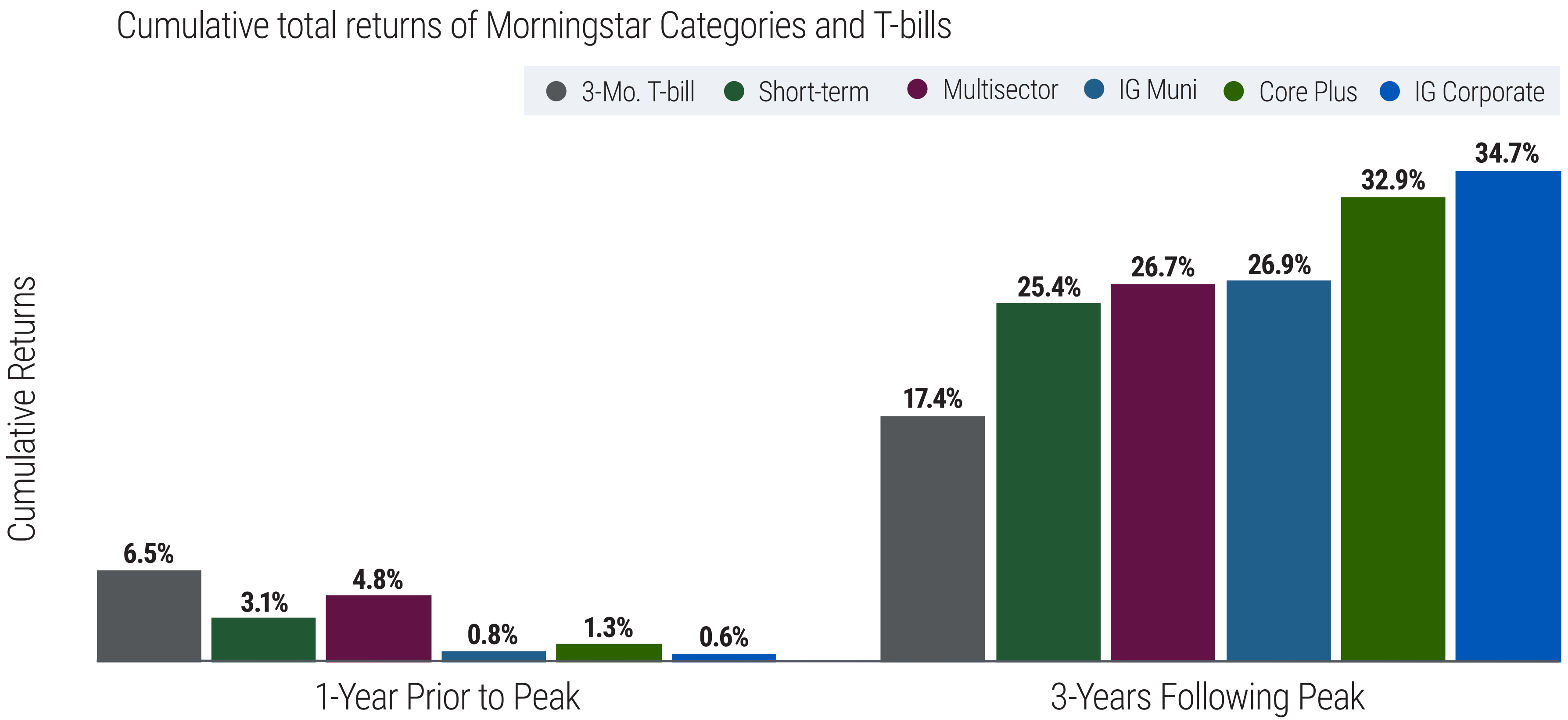
Refer to Appendix for additional forecast, index, outlook, and risk information.

Many fixed income sectors historically have outperformed cash following peak rates

Fixed income performance across hiking cycles



WHAT IT MEANS FOR INVESTORS

Investors sitting in cash seeking higher yields today may want to consider the return potential of other fixed income sectors going forward.

As of 30 June 2024. SOURCE: PIMCO, Morningstar, Bloomberg. **Past performance is not a guarantee nor a reliable indicator of future performance.**
T-Bills: FTSE 3-Month Treasury Bill Index; Short-Term: Morningstar Short-Term Bond Category; Muni Long: Morningstar Municipal Long Category; Core Plus: Morningstar Intermediate Core-Plus Category; Multisector: Morningstar Multisector Bond Category; Corporate: Morningstar Corporate Bond Category 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), 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).
Refer to Appendix for additional index, Morningstar category, outlook, and risk information.

Why Yield Matters: Higher yields anchor return potential across a range of scenarios

Estimated 12-month return by fixed income sector under different yield shocks[1]

Yield Change	T-bills	Ultrashort	Short-Term	Multisector	Core Plus	IG Muni	Long Treasury
-3.0%	3%	5%	11%	16%	22%	22%	64%
-2.0%	4%	5%	9%	13%	16%	15%	40%
-1.0%	5%	5%	7%	10%	10%	9%	20%
-0.5%	5%	6%	6%	8%	8%	6%	12%
Unchanged	5%	6%	5%	7%	5%	3%	4%
0.5%	6%	6%	4%	5%	3%	1%	-2%
1.0%	6%	6%	3%	4%	1%	-2%	-9%
2.0%	7%	7%	1%	1%	-3%	-7%	-20%
3.0%	8%	7%	-1%	-1%	-6%	-11%	-29%

As of 30 June 2024. SOURCE: Bloomberg, **PIMCO. For illustrative purposes only. Figure is not indicative of the past or future results of any PIMCO product or strategy. There is no assurance that the stated results will be achieved.**
T-bills: BofA 3Mo. T-bill Index, Ultrashort: Morningstar Ultrashort Bond Category, Short-term: Morningstar Short-term Category, Multisector: Morningstar Multisector Bond Category, Core Plus: Morningstar Intermediate Core Plus Category, IG Muni: Bloomberg Municipal Index, Long Treasury: BBG US Long Treasury Index.

1 All yield curve shocks above are specified in a parallel fashion and adjust each tenor in the same magnitude. In the analysis contained herein, PIMCO has outlined hypothetical event scenarios which, in theory, would impact the yield curves as illustrated in this analysis. No representation is being made that these scenarios are likely to occur or that any portfolio is likely to achieve profits, losses, or results similar to those shown. The scenario does not represent all possible outcomes and the analysis does not take into account all aspects of risk. Total returns are estimated by re-pricing key rate duration replicating portfolios of par-coupon bonds. All scenarios hold OAS constant.

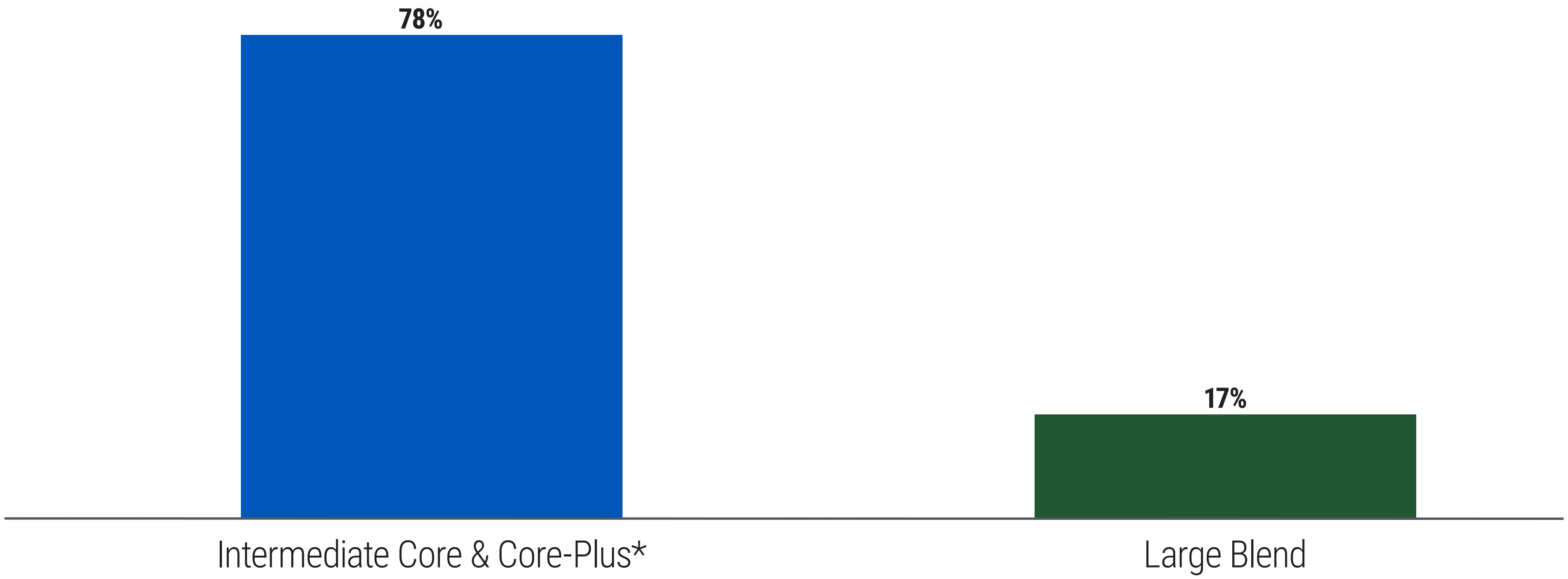
Refer to Appendix for additional forecast, hypothetical example, index, Morningstar category, return assumption, stress testing and risk information.

WHAT IT MEANS FOR INVESTORS

Broad market portfolios, like Core Plus and investment grade municipals, may offer higher return potential across most rate outcomes. If rates do fall as forecasted, these sectors are poised to meaningfully outperform cash and T-bills.

The Active Advantage:
Passive may make sense for equities, but bonds are different

Percentage of active funds within each category that outperform the median passive fund (10-year return)



WHAT IT MEANS FOR INVESTORS

Bonds are different because of the complexity of the fixed income market and the structural opportunities that skilled active managers can take advantage of, leading them to outperform their passive peers.

* Combines the Morningstar U.S. Fund Intermediate Core and Intermediate Core-Plus categories.

As of 30 June 2024. Source: Morningstar Direct and PIMCO. **Past performance is not a guarantee or a reliable indicator of future results.** Based on Morningstar U.S. ETF and U.S. Open-End Fund categories (institutional shares only). To avoid potential survivorship bias, we included funds and ETFs that were live at the beginning of each sample period but were liquidated or merged before the end of the period. Chart is provided for illustrative purposes and is not indicative of the past or future performance of any PIMCO product.

Refer to Appendix for additional investment strategy and risk information.

Definitions

FED FUNDS RATE

The interest rate the government charges banks to borrow money overnight. Raising and lowering this rate is a powerful tool the government uses to stimulate or dampen economic activity.

CONSUMER PRICE INDEX (CPI)

A weighted average price of a basket of goods and services, CPI is considered a measure of inflation.

FIXED INCOME SECTORS

The bond market is made up of numerous sectors, which are distinct parts of the market defined by their investment characteristics. These sectors include agency mortgage-backed securities (agency MBS), securitized credit, core, investment grade credit (IG credit), high yield credit (HY credit), emerging markets (EM), municipals (munis), high yield municipals (HY munis).

10-YEAR U.S. TREASURY BONDS

The 10-year Treasury is often used as a proxy for bond market in general.

RATE HIKING CYCLE

Periods where the Federal Reserve embarks on a sustained path of increasing the target fed funds rate. Hiking cycles include (start to peak): July ‘80 – May ‘81, Feb ‘88 – Aug ‘84, Feb ‘88 – March ‘89, Jan ‘94 – Feb ‘95, May ‘99 – May ‘00, May ‘04 – June ‘06 and Nov ‘15 – Dec ‘18.

BLOOMBERG AGGREGATE BOND INDEX

A broad-based fixed-income index used as a proxy for the bond market in general.

APPENDIX

Performance results for certain charts and graphs may be limited by date ranges specified on those charts and graphs; different time periods may produce different results.

CORRELATION
The correlation of various indexes or securities against one another or against inflation is based upon data over a certain time period. These correlations may vary substantially in the future or over different time periods that can result in greater volatility.

FORECAST
Forecasts, estimates and certain information contained herein are based upon proprietary research and should not be interpreted as investment advice, as an offer or solicitation, nor as the purchase or sale of any financial instrument. Forecasts and estimates have certain inherent limitations, and unlike an actual performance record, do not reflect actual trading, liquidity constraints, fees, and/or other costs. In addition, references to future results should not be construed as an estimate or promise of results that a client portfolio may achieve.

HYPOTHETICAL ILLUSTRATIONS
Hypothetical illustrations have many inherent limitations, some of which are described below. No representation is being made that any account will or is likely to achieve results similar to those shown. In fact there are frequently sharp differences between hypothetical results and actual results subsequently achieved by any particular trading program.

One of the limitations of hypothetical results is that they are generally prepared with the benefit of hindsight. In additional, hypothetical scenarios do not involve financial risk, and no hypothetical illustration can completely account for the impact of financial risk in actual trading. For example, the ability to withstand losses or to adhere to a particular trading program in spite of trading losses are material points which can also adversely affect actual trading results. There are numerous other factors related to the markets in general or to the implementation if any specific trading program which cannot be fully accounted for in the preparation of a hypothetical illustration and all of which can adversely affect actual results.

INVESTMENT STRATEGY
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 long-term, especially during periods of downturn in the market. No representation is being made that any account, product, or strategy will or is likely to achieve profits, losses, or results similar to those shown.

MORNINGSTAR CATEGORIES

HIGH-YIELD BOND
High-yield bond portfolios concentrate on lower-quality bonds, which are riskier than those of higher-quality companies. These portfolios generally offer higher yields than other types of portfolios, but they are also more vulnerable to economic and credit risk. These portfolios primarily invest in
U.S. high-income debt securities where at least 65% or more of bond assets are not rated or are rated by a major agency such as Standard & Poor's or Moody's at the level of BB (considered speculative for taxable bonds) and below.

GLOBAL BOND
Global Bond portfolios typically invest 40% or more of their assets in fixed-income instruments issued outside of the U.S. These portfolios invest primarily in investment-grade rated issues, but their strategies can vary. Some follow a conservative approach, sticking with high-quality bonds from developed markets. Others are more adventurous, owning some lower-quality bonds from developed or emerging markets. Some portfolios invest exclusively outside the U.S., while others invest in both U.S. and non-U.S. bonds. Many consistently maintain significant allocations to non-U.S. dollar currencies, while others have the flexibility to make sizeable adjustments between their U.S. dollar and non-U.S. currency exposures.

LARGE BLEND
Large Blend portfolios are fairly representative of the overall U.S. stock market in size, growth rates, and price. Stocks in the top 70% of the capitalization of the U.S. equity market are defined as large cap. The blend style is assigned to portfolios where neither growth nor value characteristics predominate. These portfolios tend to invest across the spectrum of U.S. industries, and owing to their broad exposure, the portfolios' returns are often similar to those of the S&P 500 Index.

SMALL BLEND
Small Blend portfolios favor U.S. firms at the smaller end of the market-capitalization range. Some aim to own an array of value and growth stocks while others employ a discipline that leads to holdings with valuations and growth rates close to the small-cap averages. Stocks in the bottom 10% of the capitalization of the U.S. equity market are defined as small cap. The blend style is assigned to portfolios where neither growth nor value characteristics predominate.

FOREIGN LARGE BLEND
Foreign Large Blend portfolios invest in a variety of big international stocks. Most of these portfolios divide their assets among a dozen or more developed markets, including Japan, Britain, France, and Germany. These portfolios primarily invest in stocks that have market caps in the top 70% of each economically integrated market (such as Europe or Asia ex-Japan). The blend style is assigned to portfolios where neither growth nor value characteristics predominate. These portfolios typically will have less than 20% of assets invested in U.S. stocks.

DIVERSIFIED EMERGING MARKETS
Diversified Emerging Markets portfolios tend to divide their assets among 20 or more nations, although they tend to focus on the emerging markets of Asia and Latin America rather than on those of the Middle East, Africa, or Europe. These portfolios invest predominantly in emerging market equities, but some funds also invest in both equities and fixed income investments from emerging markets.

INTERMEDIATE-TERM CORE BOND
Intermediate-term core bond portfolios invest primarily in investment-grade U.S. fixed-income issues including government, corporate, and securitized debt, and hold less than 5% in below-investment-grade exposures

INTERMEDIATE-TERM CORE-PLUS BOND
Intermediate-term core-plus bond portfolios invest primarily in investment-grade U.S. fixed-income issues including government, corporate, and securitized debt, but generally have greater flexibility than core offerings to hold non-core sectors such as corporate high yield, bank loan, emerging-markets debt, and non-U.S. currency exposures. Their durations (a measure of interest-rate sensitivity) typically range between 75% and 125% of the three-year average of the effective duration of the Morningstar Core Bond Index.

ULTRASHORT BOND
Ultrashort-bond portfolios invest primarily in investment-grade U.S. fixed-income issues and have durations typically of less than one year. This category can include corporate or government ultrashort bond portfolios, but it excludes international, convertible, multisector, and high-yield bond portfolios. Because of their focus on bonds with very short durations, these portfolios offer minimal interest-rate sensitivity and therefore low risk and total return potential. Morningstar calculates monthly breakpoints using the effective duration of the Morningstar Core Bond Index in determining duration assignment. Ultrashort is defined as 25% of the three-year average effective duration of the MCBI.

MULTISECTOR BOND
Multisector bond portfolios seek income by diversifying their assets among several fixed-income sectors, usually U.S. government obligations, U.S. corporate bonds, foreign bonds, and high-yield U.S. debt securities. These portfolios typically hold 35% to 65% of bond assets in securities that are not rated or are rated by a major agency such as Standard & Poor's or Moody's at the level of BB (considered speculative for taxable bonds) and below.

MUNI LONG-TERM BOND
Muni national long portfolios invest in bonds issued by various state and local governments to fund public projects. The income from these bonds is generally free from federal taxes. To lower risk, these portfolios spread their assets across many states and sectors. These portfolios have durations of more than 6.0 years (or average maturities of more than 12 years).

Past performance is not a guarantee nor a reliable indicator of future performance.

Morningstar Category Index: To create a model for active managers in each Morningstar Category Index PIMCO utilizes a multivariate regression of daily returns on active managers within each Morningstar Category Index versus its category benchmark over the last 10-years ending 30 June 2023 (updated annually) to create a risk model out of key risk factors which are statistically significant. Each risk model is a combination of the benchmark index and the active risk modeled measured described above. Yield for each category is provided by Morningstar as of the month-end stated. For the Multisector Bond and Non-traditional Bond Categories, we use the full category index given the limited passive funds in these categories and lack of appropriate category benchmark. Please contact PIMCO for more details on how each category index model is estimated.

OUTLOOK
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 long-term, especially during periods of downturn in the market. Outlook and strategies are subject to change without notice.

RISK
All investments contain risk and may lose value. 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. **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. **Asset allocation** is the process of distributing investments among various classes of investments (e.g., stocks and bonds). It does not guarantee future results, ensure a profit or protect against loss.

RETURN ASSUMPTIONS
Return assumptions are for illustrative purposes only and are not a prediction or a projection of return. Return assumption is an estimate of what investments may earn on average over the long term. Actual returns may be higher or lower than those shown and may vary substantially over shorter time periods.

STRESS TESTING
Stress testing involves asset or portfolio modeling techniques that attempt to simulate possible performance outcomes using historical data and/or hypothetical performance modeling events. These methodologies can include among other things, use of historical data modeling, various factor or market change assumptions, different valuation models and subjective judgments.

PIMCO as a general matter provides services to qualified institutions, financial intermediaries and institutional investors. Individual investors should contact their own financial professional to determine the most appropriate investment options for their financial situation. This material contains the current opinions of the manager and such opinions are subject to change without notice. This material has been distributed for informational purposes only and should not be considered as investment advice or a recommendation of any particular security, strategy or investment product. Information contained herein has been obtained from sources believed to be reliable, but not guaranteed.
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Bloomberg U.S. Aggregate Index represents securities that are SEC-registered, taxable, and dollar denominated. The index covers the U.S. investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities. These major sectors are subdivided into more specific indices that are calculated and reported on a regular basis.

Bloomberg Municipal Bond Index consists of a broad selection of investment-grade general obligation and revenue bonds of maturities ranging from one year to 30 years. It is an unmanaged index representative of the tax-exempt bond market. The index is made up of all investment grade municipal bonds issued after 12/31/90 having a remaining maturity of at least one year. It is not possible to invest directly in an unmanaged index.

Bloomberg U.S. Credit Index is an unmanaged index comprised of publicly issued U.S. corporate and specified non-U.S. debentures and secured notes that meet the specified maturity, liquidity, and quality requirements. To qualify, bonds must be SEC-registered. This index was formerly known as the Bloomberg Credit Investment Grade Index. It is not possible to invest directly in an unmanaged index.

Bloomberg U.S. MBS Fixed-Rate Index covers the mortgage-backed pass-through securities and hybrid ARM pools of Ginnie Mae (GNMA), Fannie Mae (FNMA), and Freddie Mac (FHLMC). The MBS Index is formed by grouping individual fixed rate MBS pools into generic aggregates. It is not possible to invest directly in an unmanaged index.

The Bloomberg US Corporate High Yield Bond Index measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below. J.P.

Morgan Emerging Markets Bond Index (EMBI) Global tracks total returns for United States Dollar denominated debt instruments issued by emerging market sovereign and quasi-sovereign entities: Brady bonds, loans, and Eurobonds. It is not possible to invest directly in an unmanaged index.

The Bloomberg High Yield Municipal Bond Index measures the non-investment grade and non-rated U.S. tax-exempt bond market. It is an unmanaged index made up of dollar-denominated, fixed-rate municipal securities that are rated Ba1/BB+/BB+ or below or non-rated and that meet specified maturity, liquidity, and quality requirements. It is not possible to invest directly in an unmanaged index.

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