

P I M C O<sup>®</sup>

# 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.

Q1 2025

Explore today's  
investment landscape  
and opportunities.

## Our View

We expect bonds to do well across a range of environments. Investors, especially those sitting in cash, should consider getting ahead of changes by moving into bonds.



# Key Takeaways



# Fixed income allocations may offer multiple benefits to a portfolio



## INCOME & RETURNS

---

Bonds can provide investors with a source of income in the form of coupon payments.



## PRESERVATION

---

Barring default, the principal value of a bond is expected to be returned to the investor at maturity.



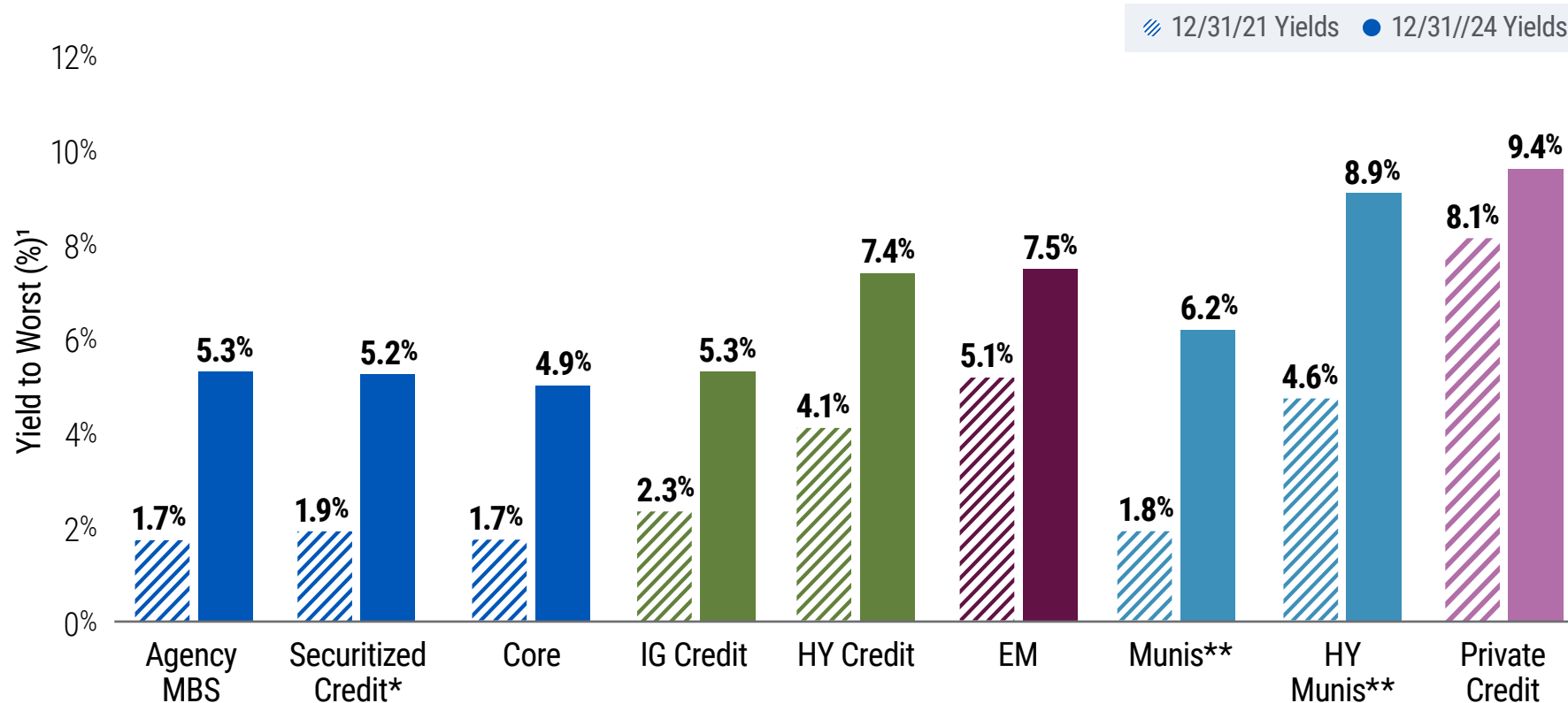
## DIVERSIFICATION

---

Bonds may help diversify a portfolio of riskier assets like stocks.

# Yields across most fixed income sectors are high vs. recent history

Today, yields are at a much stronger starting point when compared to Q4 2021



## WHAT IT MEANS FOR INVESTORS

Yields are still near decade highs across most fixed income sectors. The combination of high starting yields and expectations for rates to fall create an attractive outlook for a wide variety of bonds.

As of 31 December 2024. SOURCE: Bloomberg, PIMCO. Index proxies for asset classes displayed are as follows: Agency MBS: Bloomberg MBS Fixed Rate Index, Munis: Bloomberg Municipal Bond Index, HY Munis: Bloomberg HY Muni Bond Index, Core: Bloomberg U.S. Aggregate Index, HY Credit: Bloomberg U.S. Corporate High Yield Index, EM: JPMorgan EMBI Global, IG Credit: Bloomberg US Credit Index; Private Credit: Market estimates for yield.

\* Securitized Credit computed as average of CLOs, CMBS, and ABS from JPMorgan and Bloomberg.

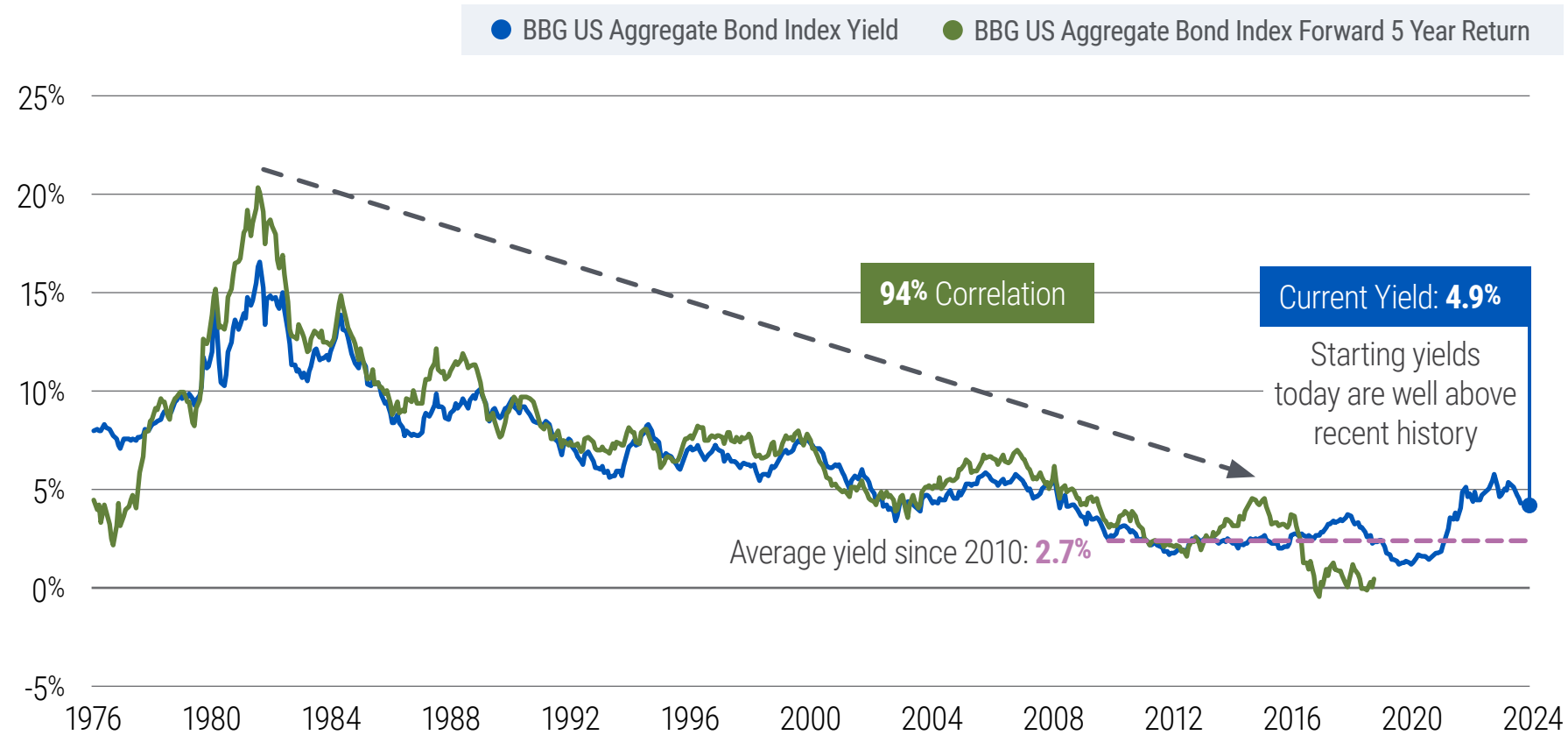
\*\* Municipal yields are the taxable equivalent yield, adjusted by the highest marginal tax rate (40.8%). Unadjusted IG Muni index yield is 3.7% with a change of 264bps compared to 12/31/2021 levels, the unadjusted HY Muni Index yield is 5.3% with a change of 254bps compared to 12/31/2021 levels.

1 The yield to worst is the yield resulting from the most adverse set of circumstances from the investor's point of view; the lowest of all possible yields.

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

# Higher returns have historically followed higher starting yields

Yield vs. 5-year forward return



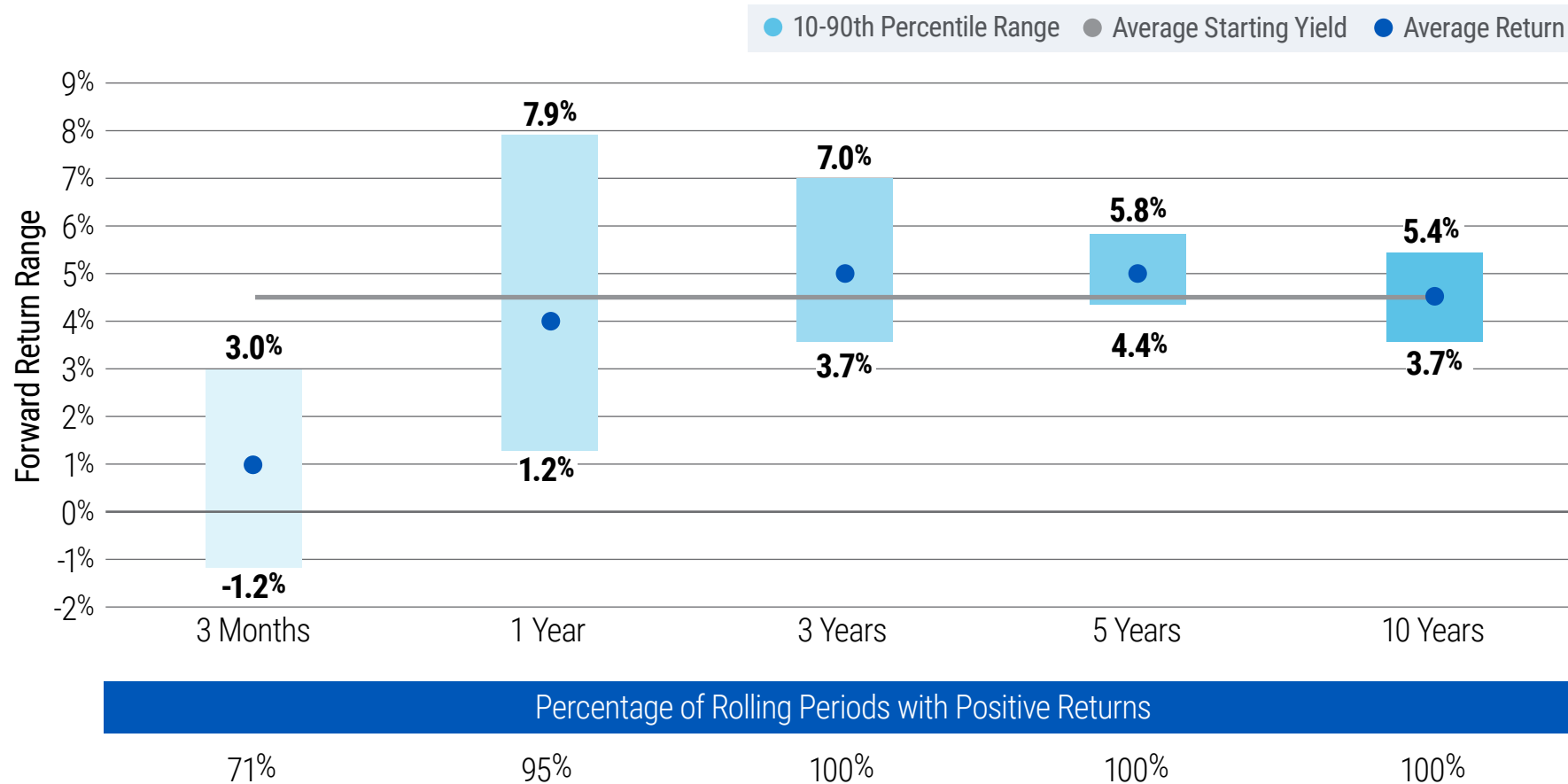
## WHAT IT MEANS FOR INVESTORS

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.

**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 31 December 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.

# Though short-term returns can vary, long-term returns tend to anchor on starting yields

Bloomberg U.S. Aggregate Return Distribution when starting yields are between 4-5%



## WHAT IT MEANS FOR INVESTORS

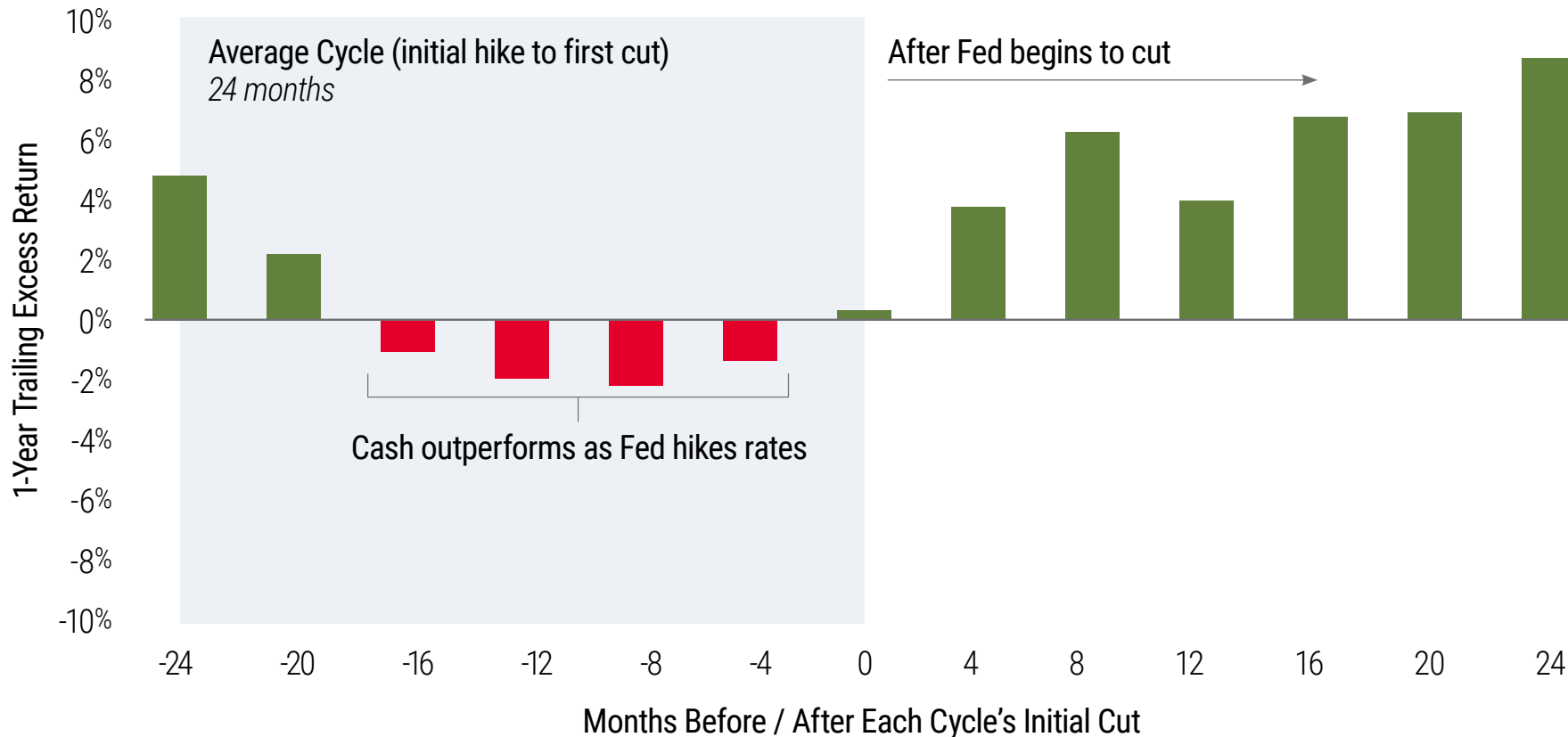
Despite the potential for volatility in the near term, current yields have more consistently rewarded patient, long-term investors with returns that are near their starting yields as one's time horizon grows.

As of 31 December 2024; Source: Bloomberg, PIMCO. **Past performance is not a guarantee nor a reliable indicator of future performance.** Yield and return are shown for the Bloomberg U.S. Aggregate Bond Index since its inception. Refer to Appendix for additional index and risk information.

# As cutting cycles begin, a reversal in fixed income returns has tended to follow

## Fixed income performance across cutting cycles

12-month trailing return: BBG US Aggregate vs. T-bills<sup>1</sup>



## WHAT IT MEANS FOR INVESTORS

At this point in interest rate cycles, bonds have tended to outperform cash. Fed rate cuts have historically supported fixed income performance while also eroding cash returns.

As of 31 December 2024. SOURCE: Bloomberg, PIMCO. **Past performance is not a guarantee nor a reliable indicator of future performance.**

<sup>1</sup> 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). Cutting cycles start: 30 June 1981, 30 September 1984, 31 May 1989, 30 June 1995, 31 December 2000, 30 September 2007, and 31 July 2019.

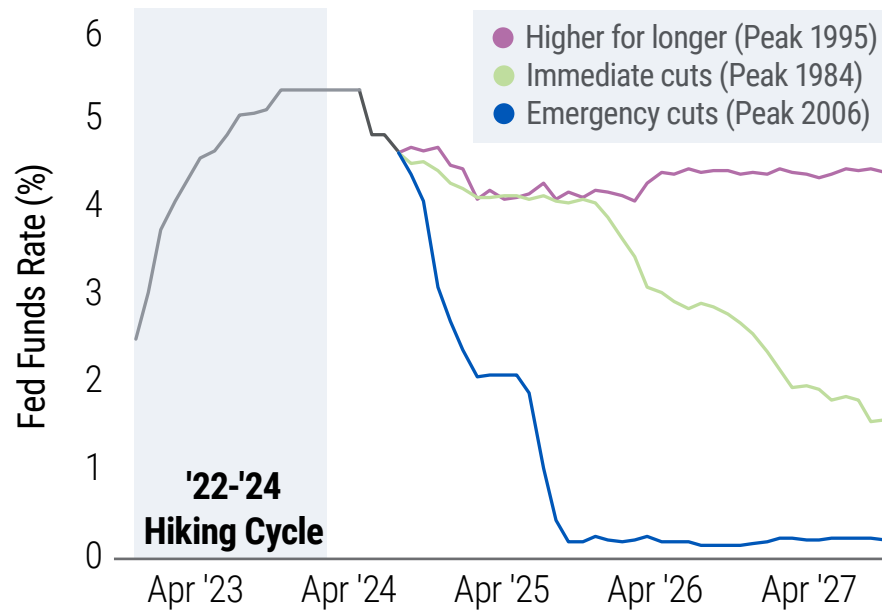
Refer to Appendix for additional forecast, index, outlook, and risk information.



# Bonds historically outperform cash even if cash rates remain higher for longer, but to a greater degree if rates fall

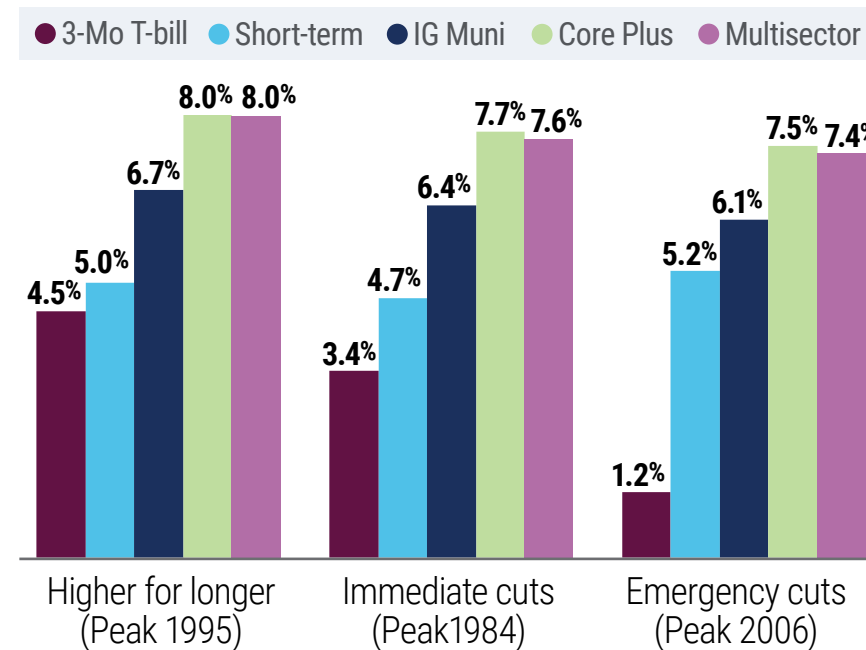
## Potential cutting cycle scenarios<sup>1</sup>

Replaying three distinct historical cycles over the next 3-years



## Fixed income passes the test<sup>2</sup>

Falling yields support fixed income performance but erode cash returns



## WHAT IT MEANS FOR INVESTORS

While the pace of further Fed cuts may be uncertain, history shows that even if rates stay higher for longer, higher starting yields and capital appreciation potential support traditional fixed income over cash.

As of 31 December 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.

<sup>1</sup> 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), 1983 (Feb '83 to Aug '84), 1994 (Jan '94 to Feb '95), 2004 (May '04 to Jun '06). We select three historical case studies to illustrate three very different outcomes for the path of the Fed Funds rate after rates hit their peak level in each cycle. The 1983 cycle is based on the rate of change given significantly higher starting yields versus today.

<sup>2</sup> To simulate performance over the next three years, we assume long-end rates follow their historical pattern in each cycle over the next three years. Short-term: Morningstar Short-term Category, IG Muni: BBG Muni Index; Core Plus: Morningstar Intermediate Core Plus Category, Multisector: Morningstar Multisector Bond Category. 3-Mo T-bill returns are estimated using the historical monthly changes in Fed Funds rate starting from the current level. 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.

# Why Yield Matters: Higher yields anchor return potential

Scenario analysis by fixed income asset<sup>1</sup>

Estimated 12-month total returns based on parallel yield shifts

Yield change	T-bills	Ultrashort	Short-term	Multisector	Core Plus	IG Muni
-3.0%	2%	2%	8%	15%	23%	24%
-2.0%	3%	3%	7%	12%	16%	16%
-1.0%	3%	4%	6%	9%	11%	10%
-0.5%	4%	4%	5%	8%	8%	6%
Unchanged	4%	5%	5%	7%	5%	3%
0.5%	5%	5%	4%	6%	3%	1%
1.0%	5%	5%	4%	4%	1%	-2%
2.0%	6%	6%	3%	2%	-4%	-7%
3.0%	7%	7%	2%	0%	-7%	-11%

## WHAT IT MEANS FOR INVESTORS

High quality and diversified portfolios, like Core Plus, investment grade municipals, and multisector, 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.

As of 31 December 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.

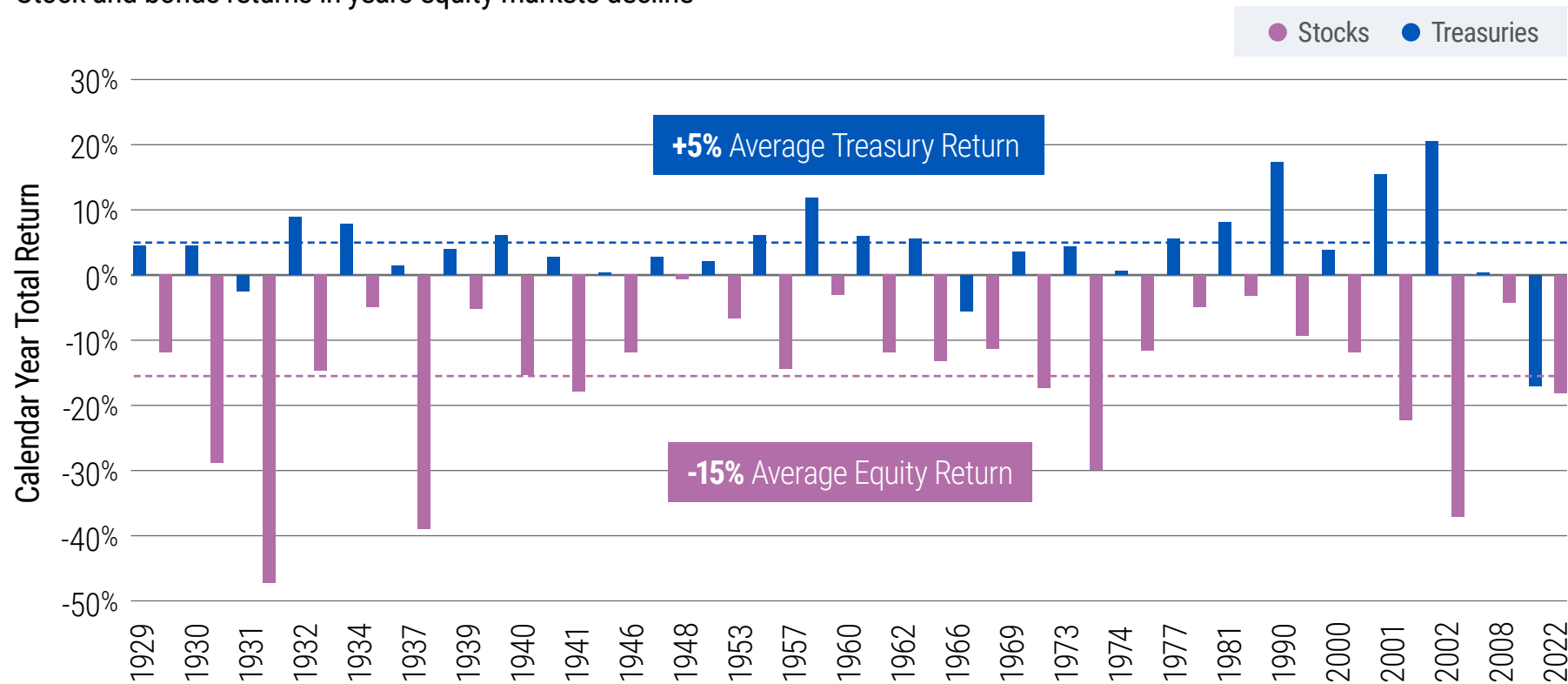
T-bills: BofA 3Mo. T-bill Index, Ultrashort: Morningstar Ultrashort Bond Category, Short-term: Morningstar Short-term Category, Multisector: Morningstar Multisector Bond Category, Core Plus: Morningstar Intermediate Core Plus Category, IG Muni: Bloomberg Municipal Index.

<sup>1</sup> 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.

# When stocks decline, Treasuries have provided attractive returns

Stock and bonds returns in years equity markets decline



## WHAT IT MEANS FOR INVESTORS

Bonds have historically provided positive returns in years when stocks are negative. While a historic inflation surprise drove both stocks and bonds lower in 2022, we expect bonds to continue to diversify during equity down markets as they have for nearly a century.

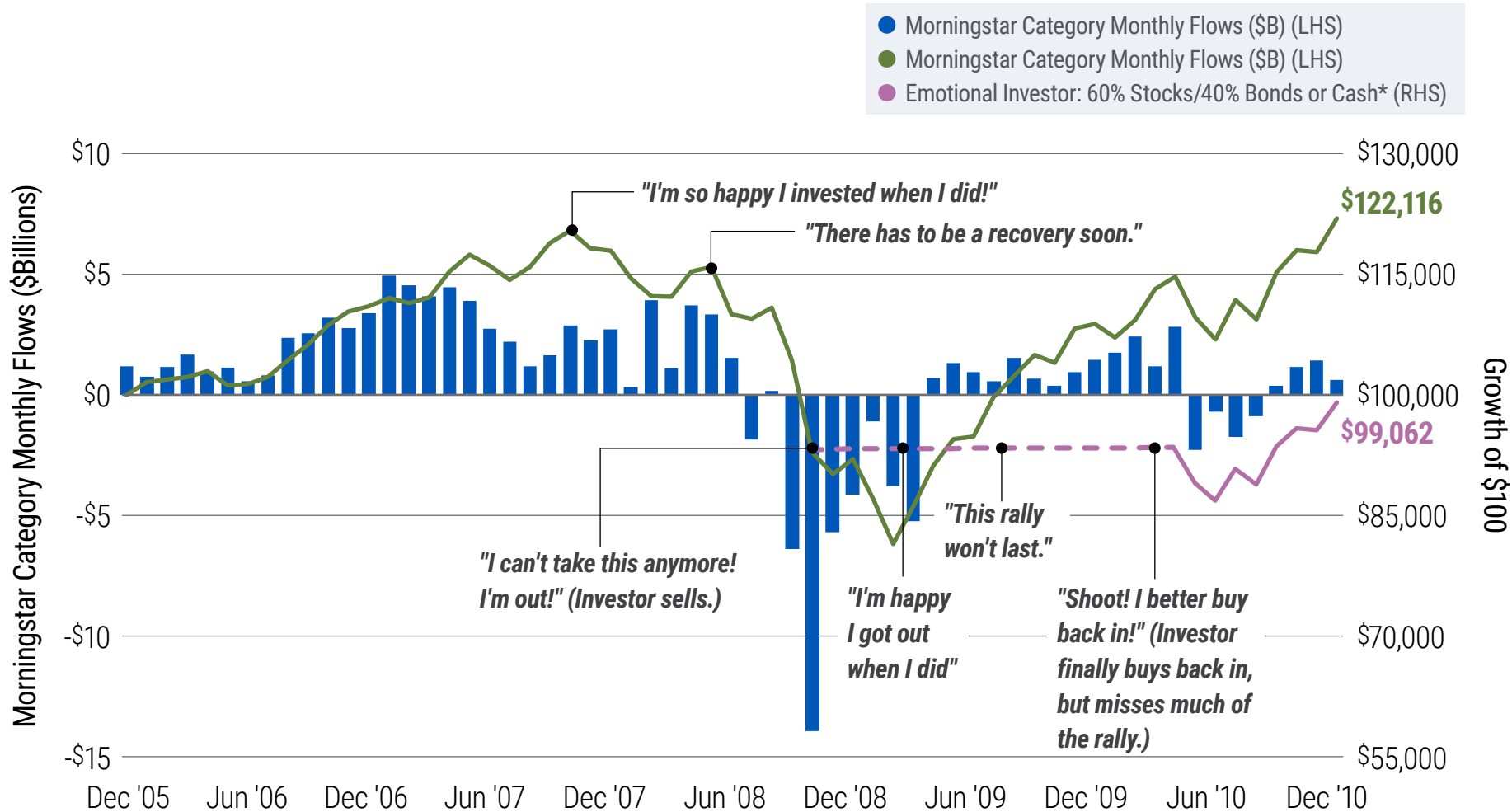
As of 31 December 2024. SOURCE: PIMCO, Bloomberg, Sydney Homer, A History of Interest Rates, Princeton: Rutgers, 1963 from Joseph G. Martin, The Financial Review (1910-1918), Federal Reserve Bank, National Monetary Statistics, New York: FRB, 1941, 1970 (annually thereafter); and Salomon Brothers, Analytical Record of Yields and Yield Spreads, New York: Saloman Brothers, 1995.

**Past performance is not a guarantee nor a reliable indicator of future performance.** Bonds are represented by the GFD Indices USA 10-year Government Bond Total Return Index (Jan 1910 – Jan 1976) and the BBG U.S. Aggregate Index (Jan 1976 – Present). The 4% U.S. Government Bonds of 1925 are used from January 1910 until September 1917. The source for this data is William B. Dana Co., The Financial Review, New York: William B. Dana Co. (1910-1921) which reprinted data published by The Commercial and Financial Chronicle. The 4% Liberty Bonds are used from October 1917 through December 1918, and beginning in 1919, the Federal Reserve Board's 10-15 year Treasury Bond index is used until 1941. 10 year bonds are used from 1941 through 1975. Cash is represented by the GFD Indices USA Total Return T-Bill Index (Jan 1910 – Jan 1978) and FTSE 3-Month Treasury Bill Index (Jan 1978 – Present). The GFD index uses commercial bills from 1910 to 1918. The coupon for US Governments was set at 3% from 1910 to 1918. The yield on 90-day treasury bills is used from 1919 to 1978.

Includes calendar years since the availability of total return data for the S&P 500 Index (December 1928).

Refer to Appendix for additional index and risk information.

# Recent returns can lead to misbehavior, partner with a trusted advisor



## WHAT IT MEANS FOR INVESTORS

When markets are volatile and performance is weak, investors who remain invested may outperform those who sell out and try to time their re-entry.

January 2006 to December 2010. Source: Morningstar, Bloomberg, PIMCO

**For illustrative purposes only. Not indicative of the past or future performance of any PIMCO product.**

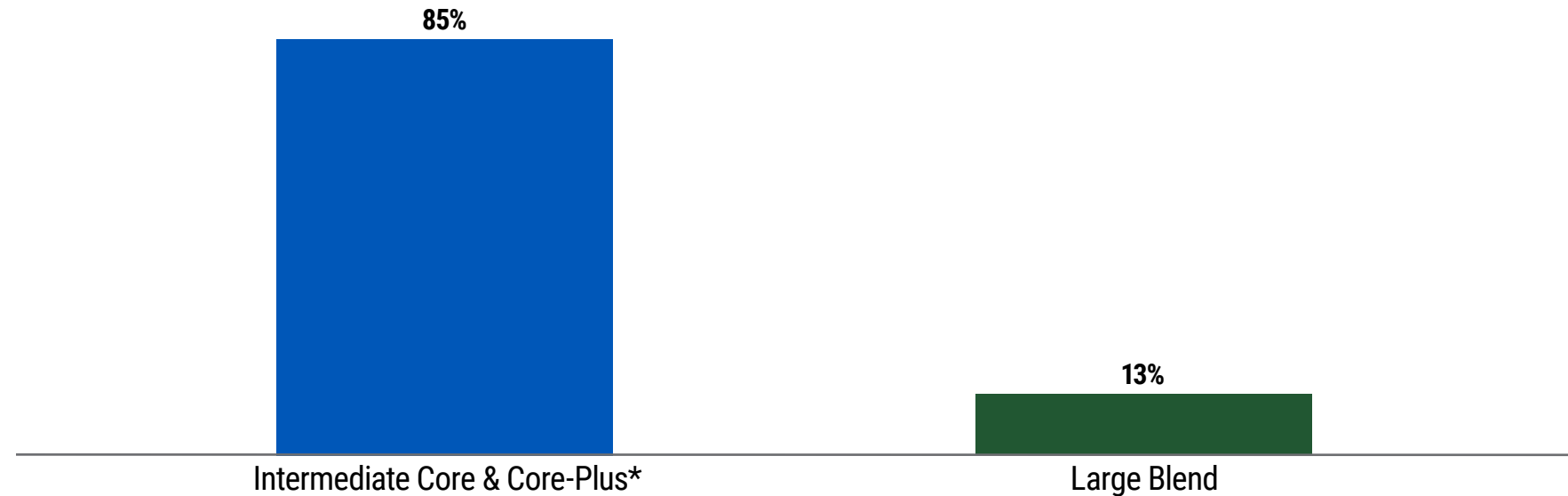
\* Stocks are represented by S&P 500 Index. Bonds are represented by Bloomberg U.S. Aggregate Index. It is not possible to invest in an unmanaged index.

\*\* These results are based on hypothetical modeling and are intended for illustrative purposes only. Emotional Investor is assumed to move to cash on 10/31/2008 and back to 60% Stocks /40% Bonds on 30 April 2010.

Refer to Appendix for additional hypothetical example, index, investment strategy and risk information.

# Bonds are Different: The Active Advantage

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, which has led them to outperform their passive peers.

## WHY ACTIVE BOND MANAGEMENT WORKS

Index replication is challenging in bond markets

Bond index design may be suboptimal

Many bond market participants do not seek to maximize profits

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

As of 31 December 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, Morningstar category and risk information.

# Bonds are Different: The Active Advantage

## GREATER MARKET COMPLEXITY FAVORS ACTIVE MANAGEMENT OF BONDS VS. STOCKS

### Bond Market

> 10,000

Over 10,000 securities in the Bloomberg US Aggregate, a common bond index

20%

Typical annual turnover for a bond index due to bonds maturing and new issuance

Hundreds

Number of potential outstanding bonds issued by a single company, with varying maturities and levels of seniority

OTC

Bonds trade over the counter (OTC). Parties negotiate prices, at less frequent intervals, with more limited pricing information

> 50%<sup>1</sup>

Percent of bond market participants, such as central banks, who invest with goals other than profit-maximization

### Stock Market

~500

About 500 securities in the S&P 500, a common equity index

1%

Typical annual new issuance of equities in equity indexes

One

Number of equity securities typically outstanding for most listed firms

Exchange

Equities trade on markets with standardized terms on a continuous basis during the day, with pricing information broadly disseminated

~0%

Few stock market investors seek goals other than profit-maximization

Source: PIMCO, Bloomberg and S&P as of 31 December 2023

<sup>1</sup> Source: PIMCO, IMF, Federal Reserve Board, ECB, BOE, Yardeni, Eurostat, SIFMA, and NAIC as of December 2023, representing the latest data available. 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

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

#### CHART

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. Charts are provided for illustrative purposes and are not indicative of the past or future performance of any PIMCO product.

#### 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 EXAMPLE

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 addition, 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 of 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.

#### INDEX

It is not possible to invest directly in an unmanaged index.

#### 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

##### **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, emerg-

ing-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.

##### **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.

##### **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.

##### **SHORT-TERM BOND**

Short-term bond portfolios invest primarily in corporate and other investment-grade U.S. fixed-income issues and typically have durations of 1.0 to 3.5 years. These portfolios are attractive to fairly conservative investors, because they are less sensitive to interest rates than portfolios with longer durations. Morningstar calculates monthly breakpoints using the effective duration of the Morningstar Core Bond Index in determining duration assignment. Short-term is defined as 25% to 75% of the three-year average effective duration of the MCBI.

##### **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.

© 2025 Morningstar. All Rights Reserved. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. Past performance is no guarantee of future results.

##### **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.

##### **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.



## 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. Income from **municipal bonds** is exempt from federal income tax and may be subject to state and local taxes and at times the alternative minimum tax. Investing in **foreign-denominated and/or -domiciled securities** may involve heightened risk due to currency fluctuations, and economic and political risks, which may be enhanced in emerging markets. **Mortgage- and asset-backed securities** may be sensitive to changes in interest rates, subject to early repayment risk, and while generally supported by a government, government-agency or private guarantor, there is no assurance that the guarantor will meet its 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. **Equities** may decline in value due to both real and perceived general market, economic and industry conditions. **Diversification** does not ensure against loss. **Private credit** involves an investment in non-publicly traded securities which may be subject to illiquidity risk. Portfolios that invest in private credit may be leveraged and may engage in speculative investment practices that increase the risk of investment loss. Management risk is the risk that the investment techniques and risk analyses applied by an investment manager will not produce the desired results, and that certain policies or developments may affect the investment techniques available to the manager in connection with managing the strategy.

## 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.

## TAX

PIMCO does not provide legal or tax advice. Please consult your tax and/or legal counsel for specific tax or legal questions and concerns.

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. No part of this material may be reproduced in any form, or referred to in any other publication, without express written permission. PIMCO is a trademark of Allianz Asset Management of America LLC. in the United States and throughout the world ©2025, PIMCO.

**Pacific Investment Management Company LLC**, 650 Newport Center Drive, Newport Beach, CA 92660, 800-387-4626.

## INDEX DESCRIPTIONS

**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 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.

**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.

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.

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.

**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.

**FTSE 3-Month Treasury Bill Index** is an unmanaged index representing monthly return equivalents of yield averages of the last 3 month Treasury Bill issues.

The **ICE BofA 3 Month U.S. Treasury Index** measures the performance of a single issue of outstanding treasury bill which matures closest to, but not beyond, three months from the rebalancing date.

**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.

**S&P 500 Index** is an unmanaged market index generally considered representative of the stock market as a whole. The Index focuses on the large-cap segment of the U.S. equities market.

It is not possible to invest directly in an unmanaged index.

These materials are being provided on the express basis that they and any related communications (whether written or oral) will not cause Pacific Investment Management Company LLC (or any affiliate) (collectively, "PIMCO") to become an investment advice fiduciary under ERISA or the Internal Revenue Code, as the recipients are fully aware that PIMCO (i) is not undertaking to provide impartial investment advice, make a recommendation regarding the acquisition, holding or disposal of an investment, act as an impartial adviser, or give advice in a fiduciary capacity, and (ii) has a financial interest in the offering and sale of one or more products and services, which may depend on a number of factors relating to PIMCO (and its affiliates') internal business objectives, and which has been disclosed to the recipient. These materials are also being provided on PIMCO's understanding that the recipients they are directed to are all financially sophisticated, capable of evaluating investment risks independently, both in general and with regard to particular transactions and investment strategies. If this is not the case, we ask that you inform us immediately. You should consult your own separate advisors before making any investment decisions.

These materials are also being provided on the express basis that they and any related communications will not cause PIMCO (or any affiliate) to become an investment advice fiduciary under ERISA or the Internal Revenue Code with respect to any recipient or any employee benefit plan or IRA because: (i) the recipients are all independent of PIMCO and its affiliates, and (ii) upon review of all relevant facts and circumstances, the recipients have concluded that they have no financial interest, ownership interest, or other relationship, agreement or understanding with PIMCO or any affiliate that would limit any fiduciary responsibility that any recipient may have with respect to any Plan on behalf of which this information may be utilized. If this is not the case, or if there is any relationship with any recipient of which you are aware that would call into question the recipient's ability to independently fulfill its responsibilities to any such Plan, we ask that you let us know immediately.

The information provided herein is intended to be used solely by the recipient in considering the products or services described herein and may not be used for any other reason, personal or otherwise.