PIMCO

PIMCO Quarterly Pension Review

September 2024

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.

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What happened and what it means for pension plans

The Quarterly Pension Review provides a concise summary of recent market developments and their impact on pension plans. It is intended for both investment practitioners and those from other disciplines who are in plan governance roles. More than a market recap, we dissect data and share objective insights that will aid you in decision-making.

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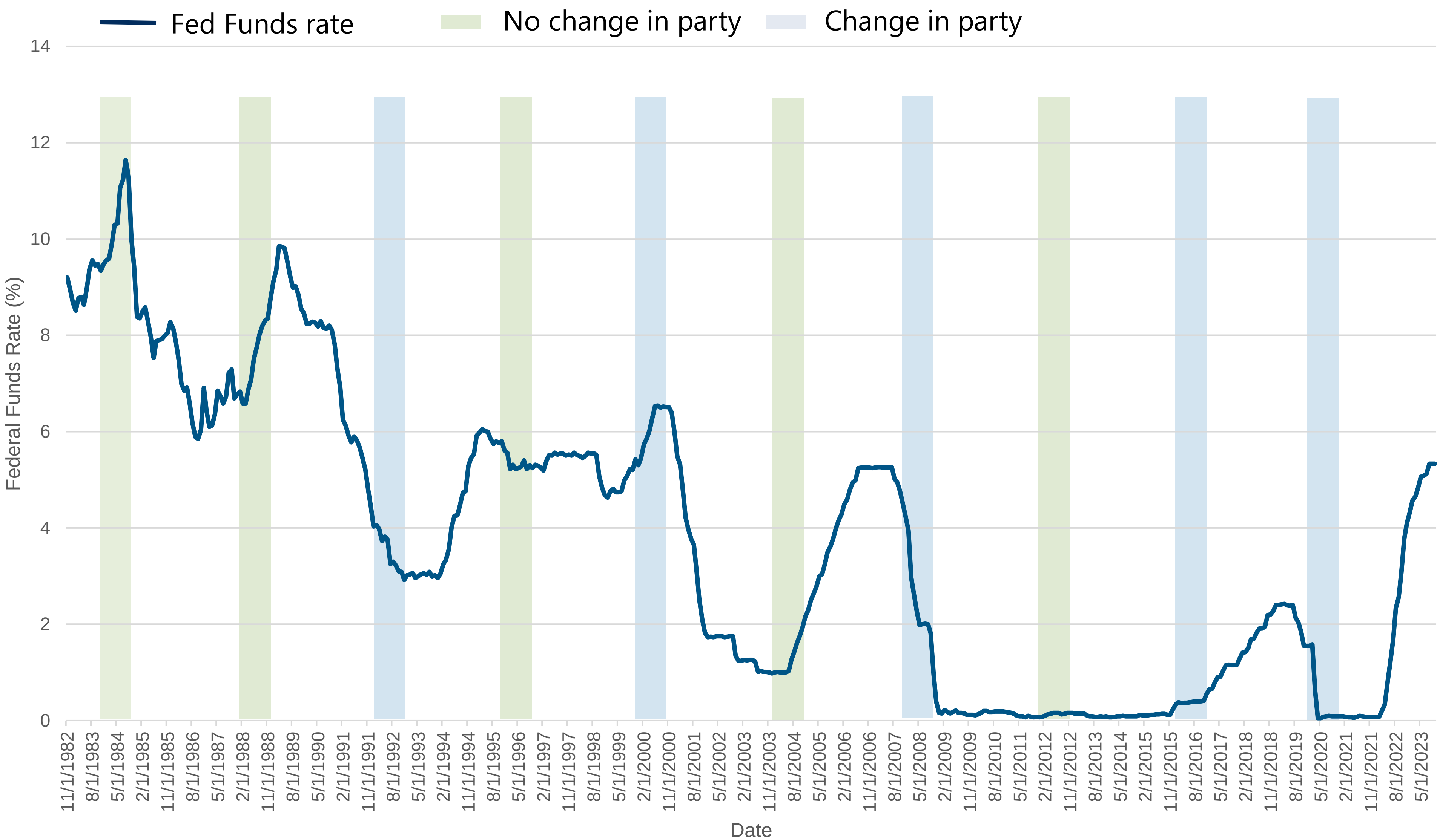
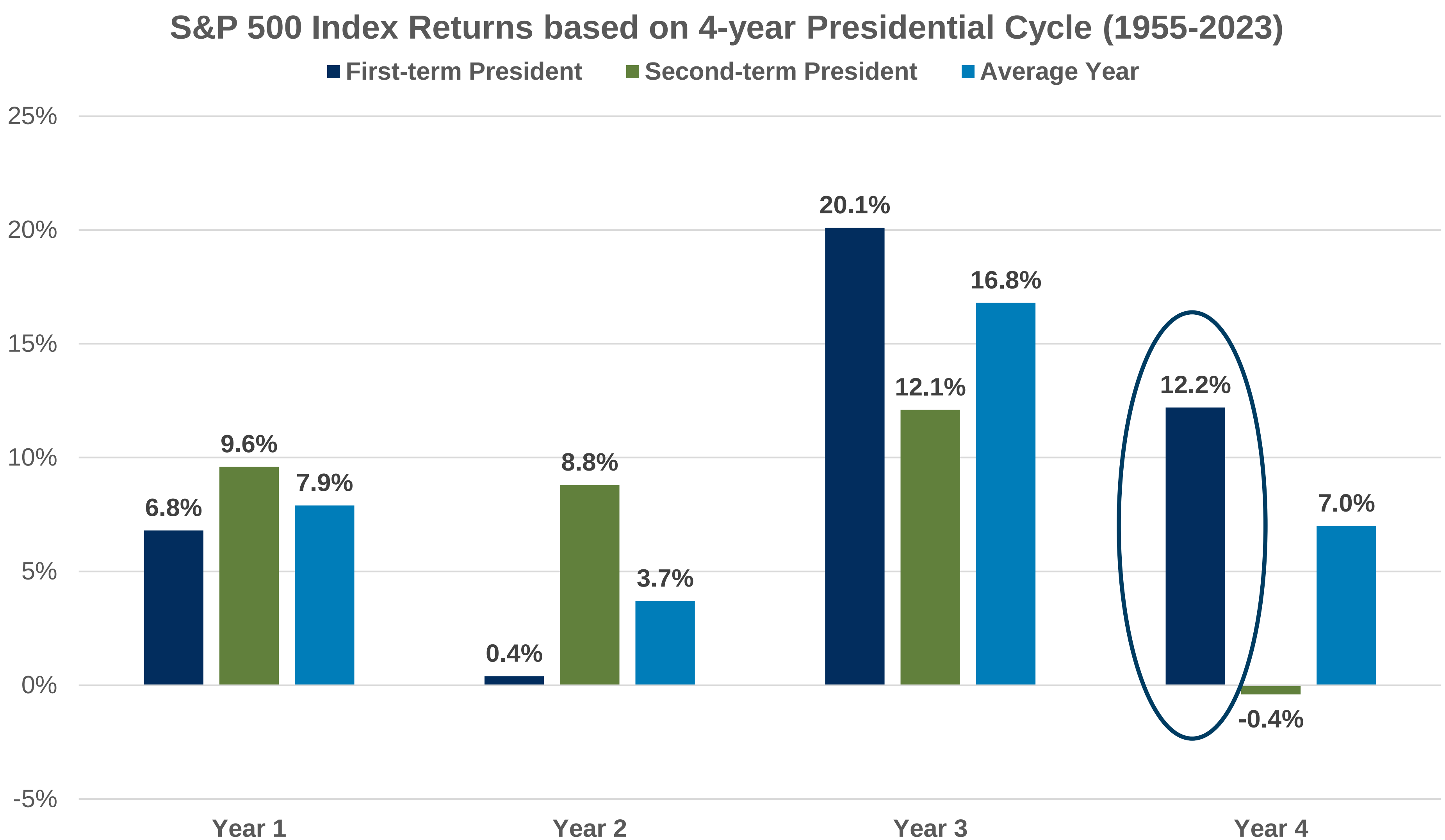
Chart of the Quarter: The Fed historically has been impervious to election cycles



Source: Bloomberg. "Election cycles" are defined as the period between the November in the year before an election year to the election
Refer to Appendix for additional outlook information.

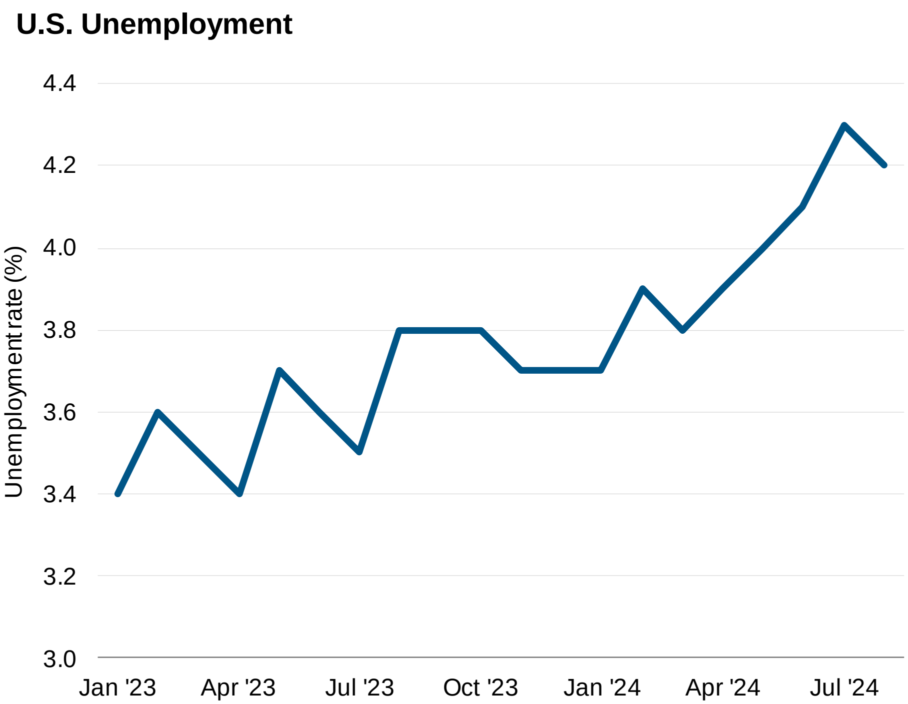
Will the election year matter to markets? The stock market typically shakes-off election years, especially in an election year of an incumbent president

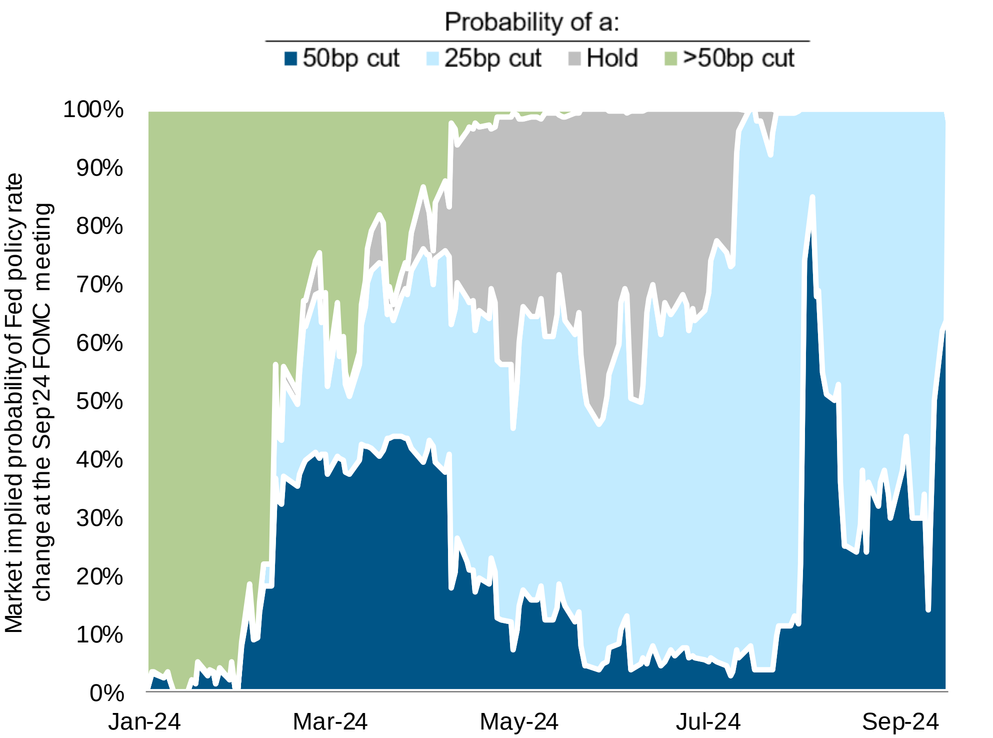


As of 5 December 2023
Source: LPL Research, Factset
Past performance is not a guarantee or a reliable indicator of future results.
Refer to Appendix for additional index, outlook and risk information.

Macroeconomic Backdrop

Although inflation risks abated, rising unemployment prompted the Fed to deliver a 50bp cut rather than the 25bp reduction that financial markets had expected in the weeks leading up to September FOMC.





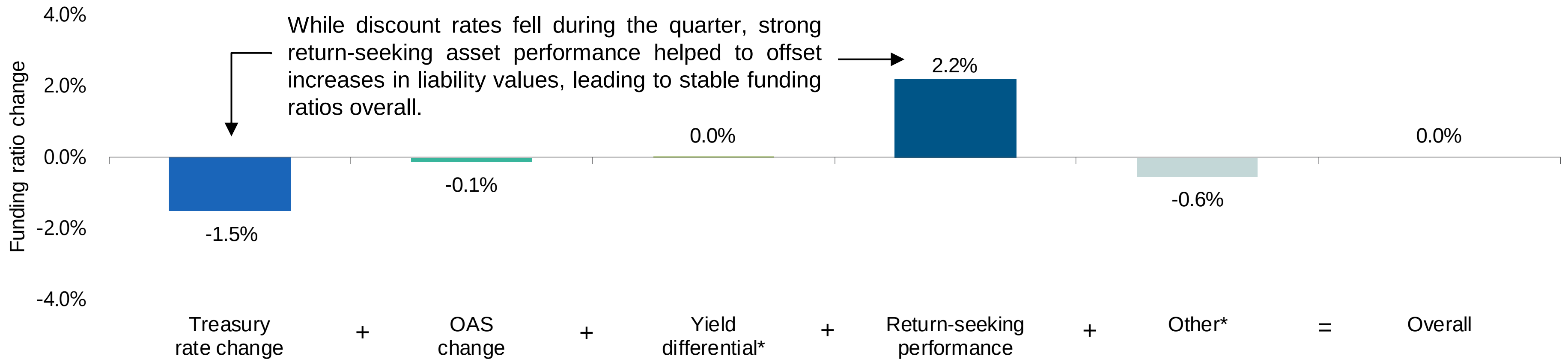
U.S. unemployment has ticked up in recent months, while the hiring rate has fallen to a level not seen since the onset of the COVID-19 pandemic.

Market participants were almost equally split on the probability of a 50bp or 25bp cut leading up to September FOMC.

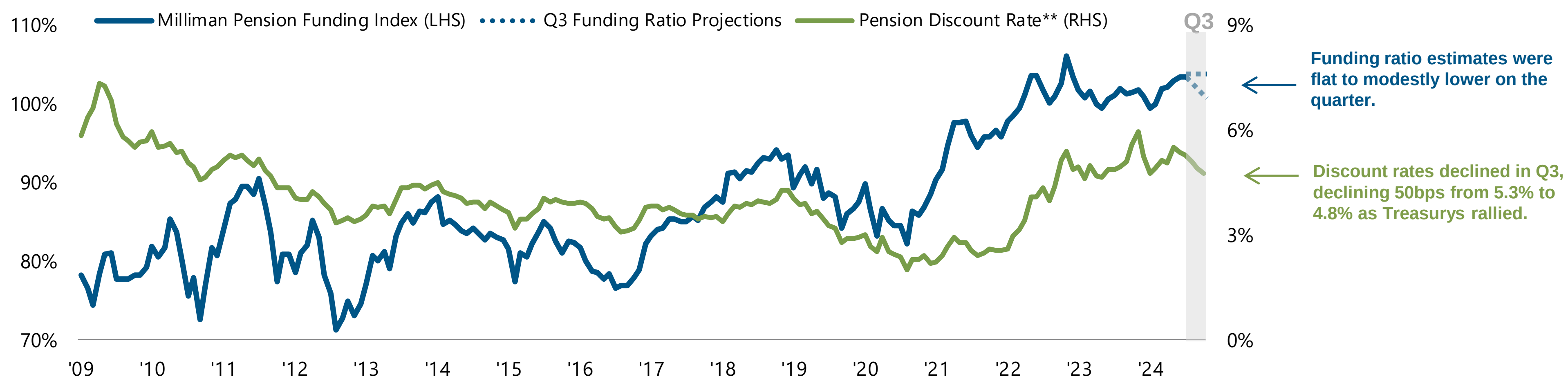
As of 30 September 2024.
Source: CME Group, Bloomberg.

Corporate pension funding ratios largely unchanged in Q3

Q3 ’24 Funding Ratio Attribution (hypothetical pension plan with funding ratio unchanged in Q3)



Pension Funding Ratio and Discount Rate



As of 30 September 2024. Source: Bloomberg, Milliman, FTSE, PIMCO.

* Yield differential refers to the yield of the fixed income portfolio compared to pension liabilities. Other refers to the residual of PIMCO’s internal attribution model for estimating the change in the hypothetical pension plan's funded status.

** Represented by the FTSE Pension Liability Index short discount rate

Refer to Appendix for additional investment strategy and risk information.

Asset class returns through a pension lens

Liability-hedging assets

- Sovereign bond yields broadly fell across developed markets as the Fed cut rates for the first time since 2020, joining other central banks, including the BoE and ECB, in easing monetary policy conditions.
- Credit spreads tightened modestly over the quarter amid a positive technical backdrop as a steepening curve draws in yield-focused buyers on the long-end and investors moving out of cash on the short end.

	Q3 2024				
	Total Return	YTM	OAS Level (bp)	OAS Change (bp)	YTD Total Return
BBG Barclays Aggregate	5.2%	4.2%	36	-3	4.4%
Intermediate Credit	4.6%	4.4%	72	-3	5.6%
Long Credit	8.1%	5.2%	108	-7	4.5%
Long Corporate	8.2%	5.2%	107	-8	4.5%
Long Govt/Credit	8.0%	4.7%	55	-5	3.5%
Long Treasury	7.8%	4.2%	-	-	2.4%
20+ STRIPS	10.2%	4.3%	-	-	-0.4%

Return-seeking assets

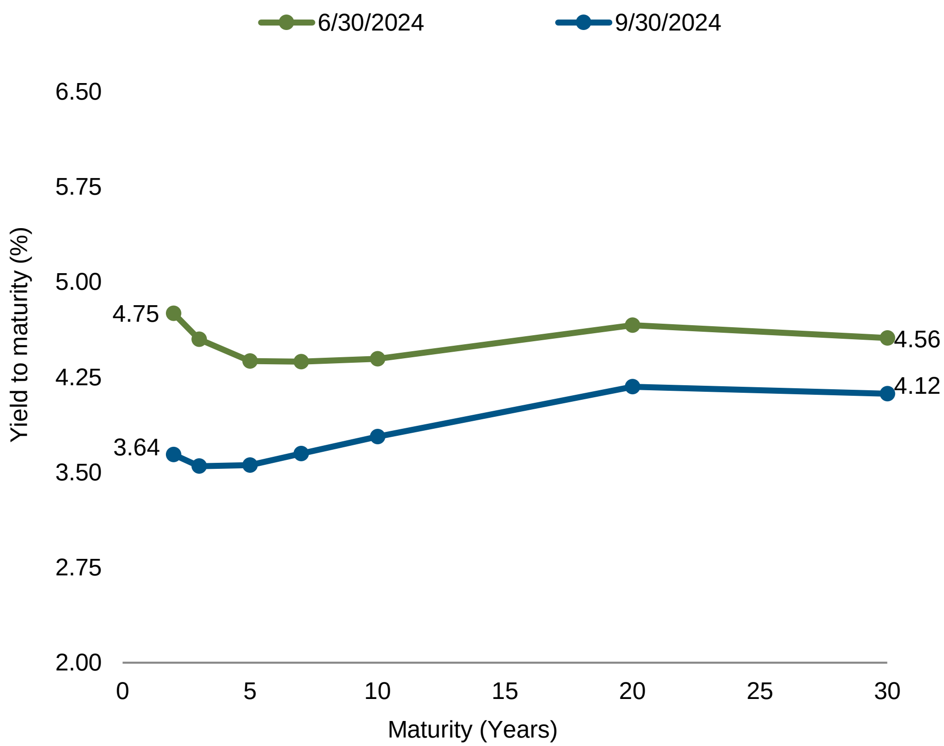
- Risk assets performance was positive in Q3'24. Both DM and EM equities finished the quarter with a gain, following a 50-bps rate cut from the Fed boosting regional banks, industrials, and small-cap stocks.
- The EM asset class delivered positive returns during the quarter, driven by both expectations and realizations of the Federal Reserve's policy direction, set against a backdrop of diverging global central bank policies and geopolitical events.
- Global high yield bond spreads tightened over the quarter. During the quarter, the lower quality segment of the high yield market outperformed.

	Q3 2024		
	Total Return	Index Level	YTD Total Return
S&P 500	5.9%	5,762	22.1%
Russell 2000	9.3%	2230	11.2%
MSCI World	6.5%	3,723	19.3%
MSCI ACWI	6.7%	852	19.1%
MSCI EM	8.8%	1,171	17.1%
EM External	6.1%	-	8.0%
EM Local	9.0%	-	4.9%
High Yield	5.3%	-	8.0%

As of 30 September 2024
Source: Bloomberg, Barclays
Past performance is not a guarantee or a reliable indicator of future results. See the Appendix for the indices used as the proxy for each asset class
Refer to Appendix for additional index, index proxies, OAS, outlook and risk information.

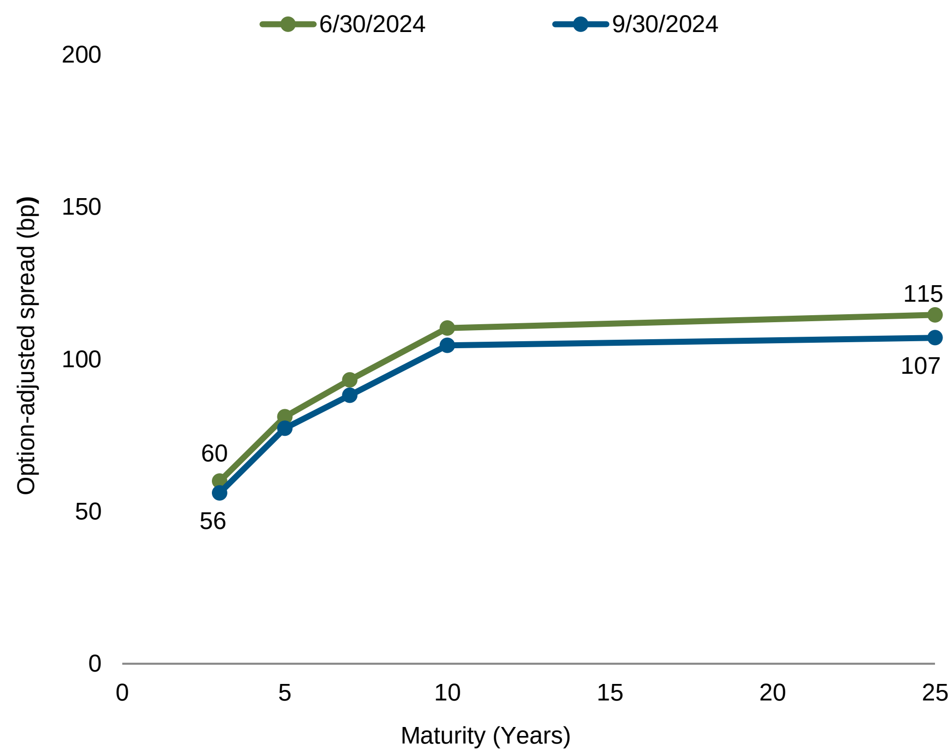
Yield curve and credit curve snapshot

U.S. Treasury Curve



In Q3, yields ended lower across the curve as the Fed cut rates for the first time since 2020.

Bloomberg U.S. Corporate OAS



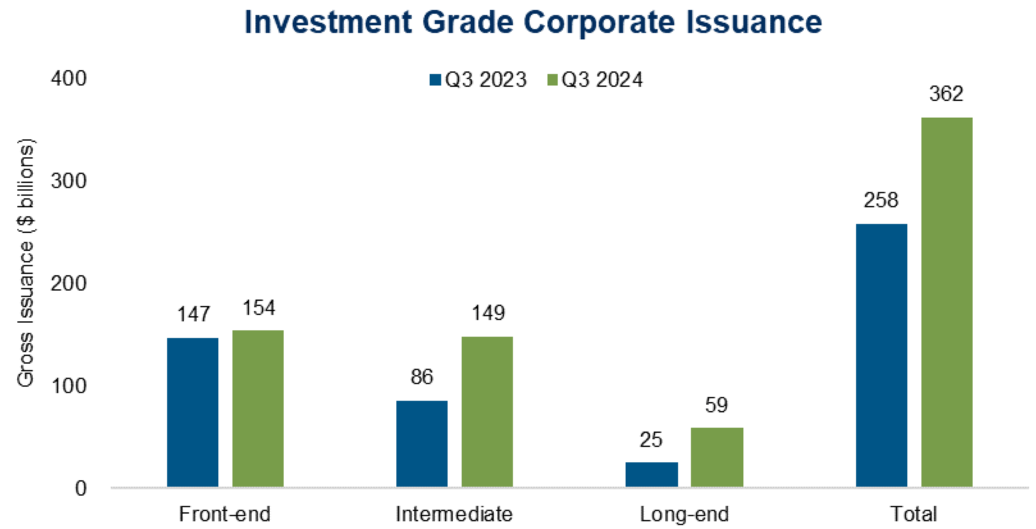
Credit spreads tightened slightly across the curve during the quarter.

As of 30 September 2024. Source: Barclays, Bloomberg
Refer to Appendix for additional index, OAS, and risk information.

Credit markets update

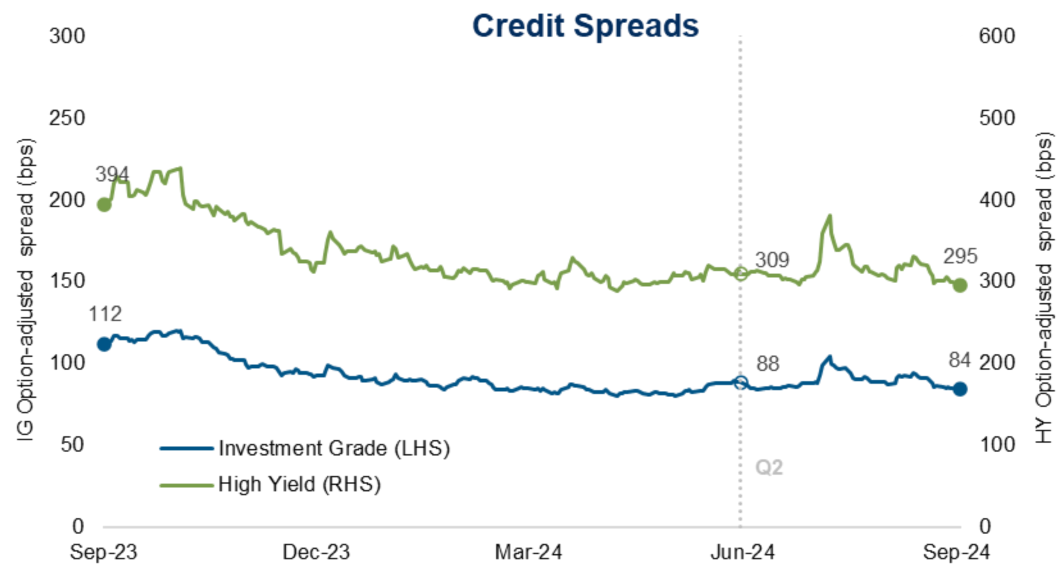
Investment Grade

- U.S. investment grade credit spreads tightened by 4 bps, ending the quarter at 84 bps. The sector returned 5.71%, outperforming like-duration treasuries by 0.70%.
- Credit spreads tightened modestly over the quarter amid a positive technical backdrop as a steepening curve draws in yield-focused buyers on the long-end and investors moving out of cash on the short end.
- Investment grade corporate gross issuance totaled $362 billion in Q3 2024, higher than gross issuance in Q2 2024, as the Fed cut rates for the first time since 2020.



High Yield

- U.S. high yield credit returned 5.28% as risk assets rallied. High yield credit spreads tightened by 14 basis points during the third quarter of 2024.
- In Q3 '24, the lowest quality segment of the high yield market outperformed as the CCC-rated segment saw a total return of 9.93%, while the BB-rated and B-rated segments saw a total return of 4.05% and 4.45%, respectively.



As of 30 September 2024. Source: Barclays

Front-end = 1-5 year, Intermediate = 6-12 year, Long-end = 13+ year

Investment Grade spreads represented by Bloomberg U.S. Investment Grade Credit Index. High yield spreads represented by Bloomberg U.S. Corporate High Yield Index.

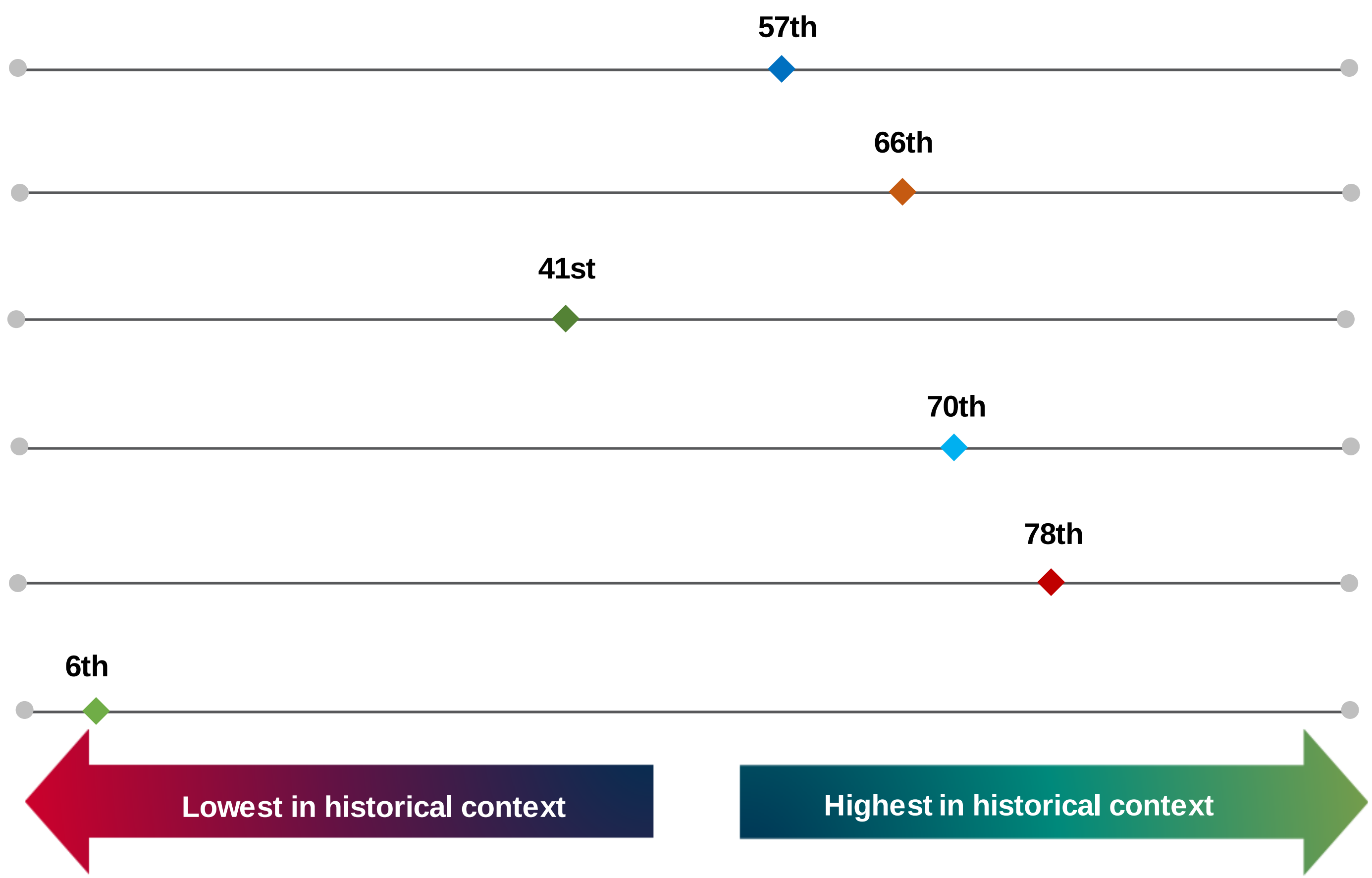
Refer to the Appendix for additional credit quality, index, OAS, outlook and risk information.

Credit markets update: putting yields in context

Present level

Yield to maturity: relative to past 20 years
(percentile)

US LC	*4.69%*
US IG	*4.67%*
US HY	*7.22%*
US Agency MBS	*4.53%*
EM External	*7.12%*
*S&P 500 EY**	*2.84%*



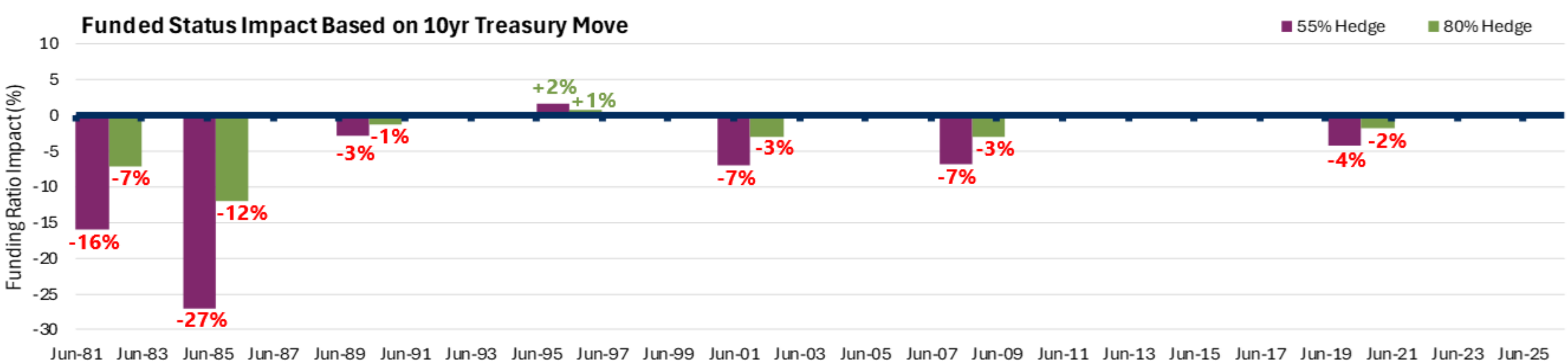
As of 30 September 2024. SOURCE: PIMCO, Bloomberg
Yields using data over last 20 years or relative to the period from index inception to as of date. US LC= BBG U.S. Long Credit Index, US IG = BBG U.S. Credit Aggregate Credit Index, US HY = BBG U.S. Corporate High Yield Index, Agency MBS=BBG U.S. Mortgage Backed Securities Index, EM External = JPM EM Bond Index Global Yield
*The S&P 500 EY is 10y Cyclically Adjusted Earnings Yield (1/CAPE).
Refer to appendix for additional index, investment strategy, OAS, and risk information.

Pension Funding Ratios

Navigating the Post-Fed Cut Landscape

10yr Treasury yield over the last 7 Fed cutting cycles[1] and the subsequent 2-year period following the first cut

The chart below shows the funded status impact of an illustrative plan assumed to be 100% funded with a 55% LDI allocation. The purple bars assume plan hedges 55% of rates while the green bars assume an 80% hedge. The impact accounts only for changes in rates as implied by the 10yr Treasury yield change.



As an example, in the September 2007 cutting cycle, this illustrative plan would have been 4% better funded, two years after the start of the cutting cycle had the hedge ratio been 80% instead of 55%.

As of 30 September 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.**[1]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 hypothetical illustration, investment strategy, and risk information.

Thought Leadership

Retirement

[DC Consulting Study Insights: The Rise of Target Date Funds as a Retirement Income Solution]
Joseph Szalay I August 2024

[Evaluating Target Date Funds as a Retirement Income Strategy]
August 2024

[Unlocking the Potential: The Versality of Nonguaranteed Retirement Income Products in DC Plans]
October 2024

Economy and Outlook

[Cyclical Outlook: Securing the Soft Landing]
Tiffany Wilding, Andrew Balls I October 2024

[Powell on Fed Policy Moves: The Time Has Come]
Richard Clarida | August 2024

[Major Shakeup in U.S. Election Diminishes Odds of a Republican Sweep]
Libby Cantrill | July 2024

[Starting with a Bang: Fed Cuts Policy Rate]
Tiffany Wilding, Allison Boxer | September 2024

[Cuts and Consequences]
Marc Seidner, Pramol Drawhan | September 2024

Markets and Investments

[Income Strategy Update: High Yielding, High Quality Global Opportunities]
Dan Ivascyn, Esteban Burbano | August 2024

[View from the Investment Committee: Bonds Shine in Volatile Times]
Dan Ivascyn, Kim Stafford | August 2024

[Actionable Alternatives: Synthetic Risk Transfer]
Kristofer Kraus, Mark Kruzel | September 2024

[View from the Investment Committee: Balancing Risk Amidst Political Uncertainty]
Dan Ivascyn I August 2024

[Facing the Music: Challenges an Opportunities in Today's Commercial Real Estate Market]
John Murray, François Trausch | July 2024

[PIMCO's Highest Conviction Themes in Asset Based Lending]
Kyle McCarthy| August 2024

As of September 2024. Source: PIMCO
Refer to Appendix for additional investment strategy and risk information.

Resources

Webinars and Podcasts

[A View from Washington webcast]
Libby Cantrill I September 2024

Rate Cuts and Investment Implications webcast

Bob Bernanke and Marc Seidner I September 2024

Cyclical Outlook webcast
Tiffany Wilding, Ken Chambers, Mohit Mittal I October 2024

PIMCO RealPath Blend Quarterly Update |
Joseph Szalay, Vidur Mehra, Jeanetta Skorzewski I October 2024

The PIMCO Pod - can be listened to on the following platforms - Spotify | Apple

Market and Industry Insights

View our Client Solutions & Analytics team's market dashboard.

Understanding the Defined Contribution landscape: 2024 PIMCO US Defined Contribution Consulting Study

Washington Outlook: *For regular insights on U.S. policy via email, please sign up here to receive* Washington Watch *from Libby Cantrill, Head of Public Policy.*

Macro Signposts: *For weekly insights on the global macro landscape, sign up here to receive* Macro Signposts *from Tiffany Wilding, Economist.*

Tools

PIMCO Pro: Digital Engagement Platform: Login today or register as a new user to utilize our dynamic, self-service features for your PIMCO investments.

As of October 2024. Source: PIMCO
Refer to Appendix for additional investment strategy and risk information.

Pension Risk Management Solutions

PIMCO’s suite of services: Strategic and implementation partnership

Linking together multiple services for clients based on plan sponsor objectives

- Committee education
- Risk management diagnostics / solutions
- Hibernation buyout analysis
- Completion management
- Return-seeking optimization
- Custom LDI portfolio management
- Overlay implementation*
- Glide Path implementation*
- Liability immunization implementation*
- Annuity-ready portfolios**

Please reach out to your PIMCO Account Manager or QPRTeam@pimco.com with any questions

Source: PIMCO. **For illustrative purposes only**
* Including design, monitoring, rebalancing
** PIMCO does not offer insurance guaranteed products or products that offer investments containing both securities and insurance features.
Refer to Appendix for additional investment strategy and risk information.

Appendix

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

CREDIT QUALITY
The credit quality of a particular security or group of securities does not ensure the stability or safety of an overall portfolio. The quality ratings of individual issues/issuers are provided to indicate the credit-worthiness of such issues/issuer and generally range from AAA, Aaa, or AAA (highest) to D, C, or D (lowest) for S&P, Moody's, and Fitch respectively.

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, or as the purchase or sale of any financial instrument any particular security, strategy or investment product. 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. There is no guarantee that results will be achieved.

HEDGE RATIO
Duration Hedge Ratio = asset duration exposure / liability duration exposure. Credit Spread Duration Hedge Ratio (Beta-Adjusted) = asset duration exposure / credit spread duration exposure.

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.

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

INDEX PROXIES
Indices used as proxy for asset class returns: Long Govt/Credit: Bloomberg U.S. Long Government/Credit Index; Long Credit: Bloomberg; U.S. Long Credit Index; Long Corporate: Bloomberg U.S. Long Corporate Index; Long Treasury: Bloomberg U.S. Long Treasury Index; STRIPS: FTSE 20+ Year U.S. Treasury STRIPS Index; BBG Aggregate: Bloomberg U.S. Aggregate Index; S&P 500: S&P 500 Index; Russell 2000: Russell 2000 Index; MSCI World: MSCI World Index; ACWI: MSCI ACWI Index; MSCI EM: MSCI Emerging Markets Index; EM External: J.P. Morgan EMBI Global Index; EM Local: J.P. Morgan GBI -; EM Global Diversified Composite Unhedged USD; High Yield: Bloomberg U.S. Corporate High Yield Index; Investment Grade: Bloomberg U.S. Corporate Index; Long Govt: Bloomberg; U.S. Long Government Index; Intermediate Credit: Bloomberg U.S. Intermediate Credit Index.

Appendix

INDEX DESCRIPTIONS

Bloomberg Long-Term Government/Credit Index is an unmanaged index of U.S. Government or Investment Grade Credit Securities having a maturity of 10 years or more. It is not possible to invest directly in an unmanaged index.

Bloomberg U.S. Long Credit Index includes both corporate and non-corporate sectors with maturities equal to or greater than 10 years. The corporate sectors are Industrial, Utility, and Finance, which include both U.S. and non-U.S. corporations. The non-corporate sectors are Sovereign, Supranational, Foreign Agency, and Foreign Local Government. It is not possible to invest directly in an unmanaged index.

The Bloomberg Long Corporate Index is a component of the Bloomberg U.S. Long Credit index. Bloomberg U.S. Long Credit Index is the credit component of the Bloomberg U.S. Government/Credit Index, a widely recognized index that features a blend of U.S. Treasury, government-sponsored (U.S. Agency and supranational), and corporate securities limited to a maturity of more than ten years.

Bloomberg Long-Term Treasury Index consists of U.S. Treasury issues with maturities of 10 or more years. It is not possible to invest directly in an unmanaged index.

FTSE STRIPS Index, 20+ Year Sub-Index represents a composition of outstanding Treasury Bond and Notes with a maturity of at least twenty years. The index is rebalanced each month in accordance with underlying Treasury figures and profiles provided as of the previous month- end. The included STRIPS are derived only from bonds in the FTSE U.S. Treasury Bond Index, which include coupon strips with less than one year remaining to maturity. It is not possible to invest directly in an unmanaged index.

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

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.

Russell 2000® Index is composed of 2,000 of the smallest companies in the Russell 3000 Index and is considered to be representative of the small cap market in general. It is not possible to invest directly in an unmanaged index.

The MSCI World Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of non-U.S. developed markets. The index covers approximately 85% of the free-float adjusted market capitalization in each country. The MSCI World reflects the views and practices of the international investment community by striking a balance between a country's economic development and the accessibility of its market while preserving index stability.

The MSCI All Country World Index is a free-float adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets. The MSCI All Country World Index consists of 46 country indexes comprising developed and emerging market indexes.

The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets. It is not possible to invest directly in the 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 his/her ability to invest for a 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.

OAS

The option adjusted spread (OAS) measures the spread over a variety of possible interest rate paths. A security's OAS is the average earned over Treasury returns, taking multiple future interest rate scenarios into account.

Appendix

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 suitable for all investors and each investor should evaluate their ability to invest for the long term, especially during periods of downturn in the market. Outlook and strategies are subject to change without notice.

RISK
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 the current low interest rate environment increases 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. 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 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. Equities may decline in value due to both real and perceived general market, economic, and industry conditions. Derivatives may involve certain costs and risks such as liquidity, interest rate, market, credit, management and the risk that a position could not be closed when most advantageous. Investing in derivatives could lose more than the amount invested. Diversification does not insure against loss.

Appendix

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.

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