

# Why yield matters – higher yields anchor return potential in a range of scenarios

## Investors sitting in cash may want to consider fixed income

### WHAT THE CHART SHOWS

Estimated 12-month total returns for various segments of the bond market under different yield environments, from a 3% decline to a 3% increase.

The red boxes show scenarios for negative returns, white boxes show flat returns and green boxes highlight positive returns.

### 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.

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%

SOURCE: Bloomberg, PIMCO as of 31 December 2024. **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.**

Treasury tenors correspond to an illustrative treasury bond with the stated maturity which matches the yield on the current treasury curve. **US Agg:** Bloomberg US Aggregate Index, **IG Muni:** Bloomberg Municipal Index, **Multisector:** Morningstar Multisector Bond Category Scenario analysis reviews the potential outcomes of scenarios where the yields on different bond maturities (or tenors) move in a parallel fashion (all moving the same amount) as specified in the table. Total returns are estimated by re-pricing key rate duration replicating portfolios of par-coupon bonds. Each investment is mapped to its key rate duration (estimated exposure to various maturities), which informs its level of interest rate sensitivity and reinvestment assumptions. All scenarios hold OAS constant. This approach helps estimate how changes in yields could potentially impact fixed income returns. No representation is being made that these scenarios are likely to occur or that any asset class or 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.

### PUTTING IT ALL TOGETHER:

- Yields would likely need to raise upwards of 3% before losses are seen in Multisector Fixed Income
- There is apparent reinvestment risk at the front end of the curve. 3-Month Bills are the only security on the chart that experiences worse 12-month performance as rates shift lower
- Equity-Like returns are possible across a variety of exposures if yields fall by only 50 bps

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

**A word about 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.

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**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.

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