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Why Bond ETFs Now? 3 Key Charts

Cash rates are falling, while bond yields look increasingly attractive.

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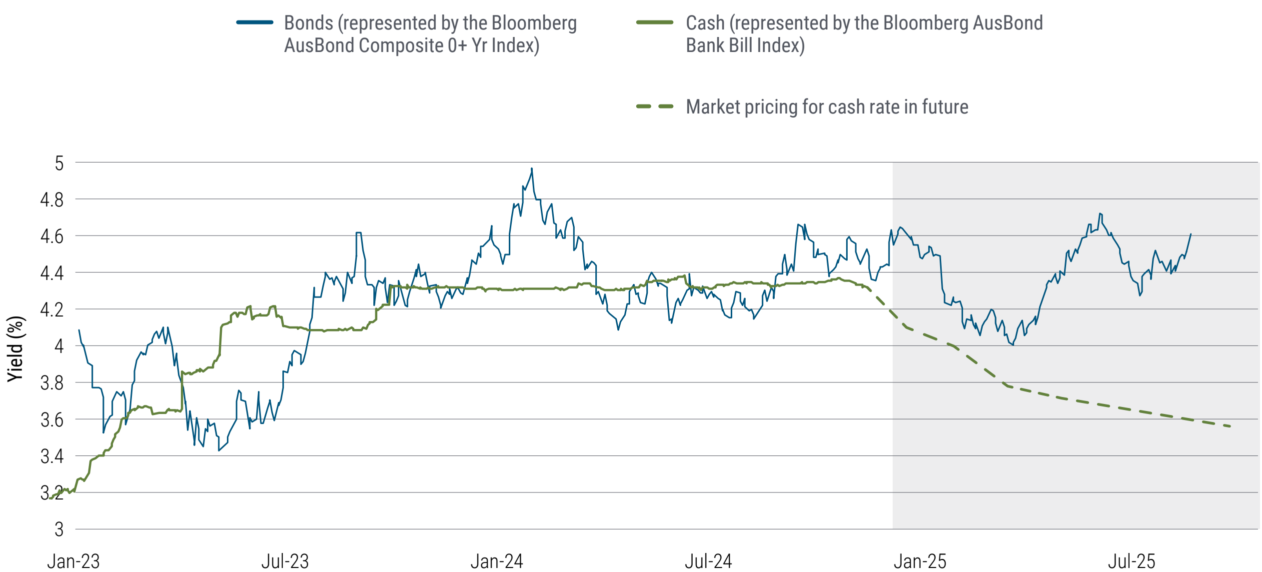
Why Active Bond ETFs Now?

CASH RATES ARE FALLING, WHILE BOND YIELDS LOOK INCREASINGLY ATTRACTIVE

Australian bonds are yielding more than cash and this is likely to continue



As of 13 January 2025. Source: Bloomberg, PIMCO. Yield is Yield to Maturity. **Past performance is not a guarantee or a reliable indicator of future results.**

For over two years, Australians invested in cash and term deposits have benefited from high interest rates. Now that the Reserve Bank of Australia (RBA) has begun its rate cutting cycle, investors are asking how they can preserve their income stream.

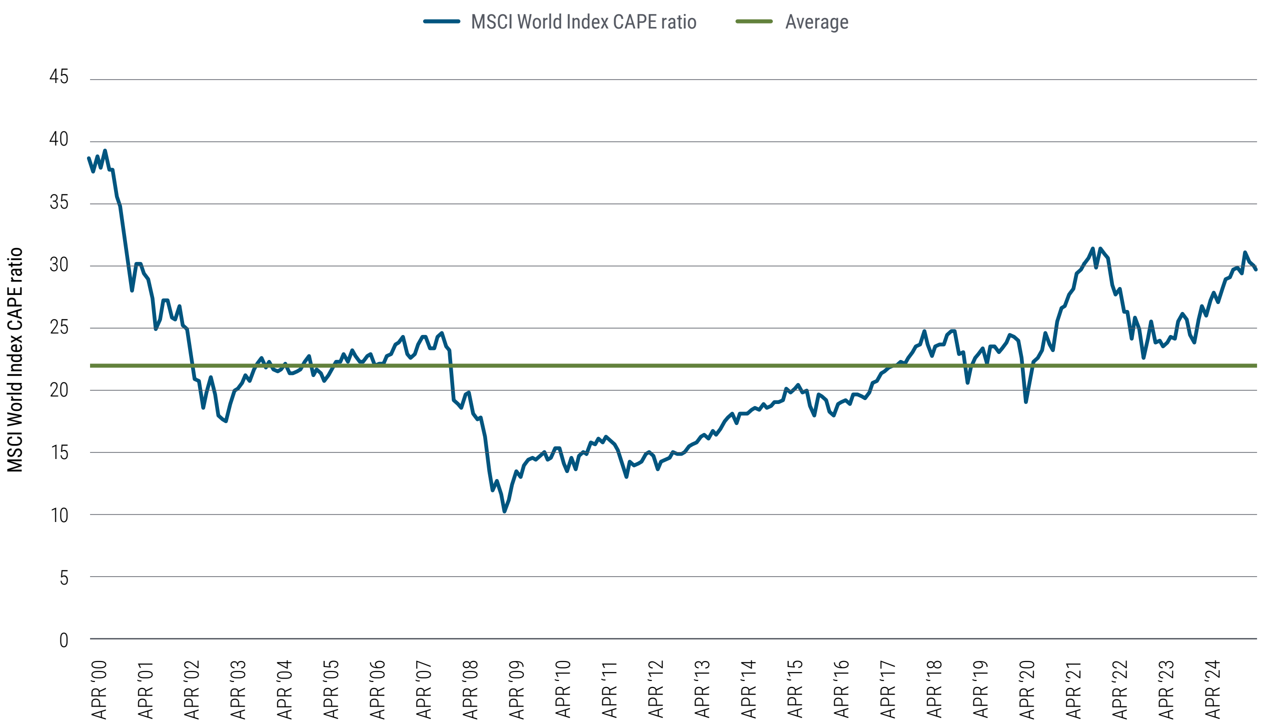
- Bonds today are yielding more than cash equivalents.
- With further rate cuts on the horizon, the market is pricing for the cash yield to fall even further this year. This means that bonds and bond ETFs should provide higher returns than investors can achieve through term deposits.
- Additionally, bonds, unlike cash, stand to benefit from capital appreciation as interest rates fall, reinforcing their role as a diversifier and stabiliser for equity exposure in portfolios.

BOTTOM LINE

Investing in bonds and bond ETFs can offer you the chance to earn more than term deposits while defending your portfolio against economic uncertainty.

WITH EQUITIES LOOKING EXPENSIVE, NOW IS A GOOD TIME TO DIVERSIFY PORTFOLIOS WITH ACTIVE BOND ETFS

Equity valuations appear rich on a historical basis



Source: PIMCO, Robert J. Shiller. As of 24 February 2025. CAPE ratio is equal to the cyclically adjusted price earnings ratio P/E10. Correlation is calculated using the trailing 252-day total returns of the MSCI World Index.

BOTTOM LINE

Investors should revisit a time-tested strategy: diversification. While equities will remain an essential component of any investment portfolio, incorporating an active bond ETF can help to counterbalance your existing equity exposure.

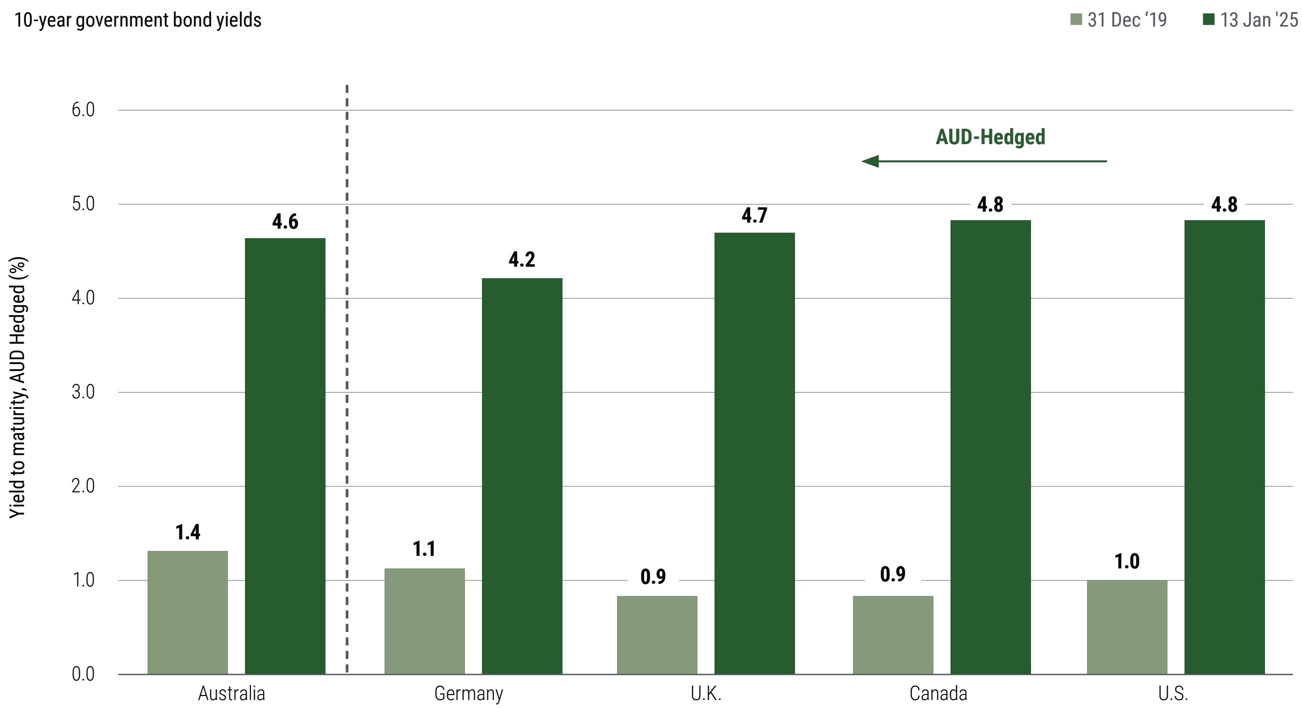
Financial markets seem to be pricing in a very positive baseline expectation for equities at a time of elevated geopolitical uncertainty.

This expectation has been tested lately, particularly in late January when fears about the durability of artificial intelligence investments, amid rising competition from China, sparked a sell-off.

- One of the most common ways to determine a stock's valuation is the cyclically adjusted price-to-earnings (CAPE) ratio.
- The CAPE ratio has climbed to levels previously seen only twice in the past three decades: during the dot-com bubble in the early 2000s and the post-pandemic recovery.
- As a result, equities are looking expensive relative to historical averages.
- Now is a good time for equity investors to evaluate the sustainability of stock gains and, against a backdrop of heightened volatility, revisit the benefits of diversifying their portfolios with active bond ETFs.

BOND YIELDS ARE HIGH, CONTRIBUTING TO A COMPELLING OUTLOOK FOR ACTIVE BOND ETFS

Bond markets today offer attractive and diverse opportunities



As of 13 January 2025. **For illustrative purposes only.** Source: Bloomberg, PIMCO. Yield to Maturity (YTM) is the estimated total return of a bond if held to maturity. YTM accounts for the present value of a bond's future coupon payments. The index proxies are the following: U.S.: U.S. Generic 10Y Government Bond Index; Germany: German Generic 10Y Government Bond Index; U.K.: U.K. Generic 10Y Government Bond Index; Canada: Canadian Generic 10Y Government Bond Index; Australia: Australian Generic 10Y Government Bond Index.

With such attractive yields available across the global opportunity set, we believe there is great value in fixed income markets today – plus the potential for a significant cushion against volatility.

- The bond market presents a wealth of attractive opportunities, with yields across developed markets, including Australia, significantly higher than pre-pandemic levels.
- The yield at which a bond is purchased is a reliable predictor of its expected returns. In fact, approximately 95% of expected returns over the next five years are attributable to starting yields.
- As a result, today's higher starting yields imply attractive returns for bonds in the latter half of this decade, especially when compared to equity valuations which are hovering near historical highs.

BOTTOM LINE

Bond yields globally are near their highest levels in more than a decade, offering a compelling entry point into active bond ETFs.

PIMCO

In an era of rising uncertainty and falling cash rates, active bond ETFs offer not only attractive yields but also a vital hedge against market volatility. PIMCO's active bond ETFs are powered by the same portfolio manager teams, broad and deep credit resources, proprietary analytics, and risk management that are used to manage PIMCO's US$1.95 trillion in assets under management (as of 31 December 2024).

To find out more about our ETF offerings, contact your financial adviser, or visit pimco.com/au/etfs

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