PIMCO

Cyclical Outlook • October 2026

# Growth Holds, Risks Widen

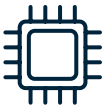
PIMCO's Cyclical Outlook examines the potential forces shaping the global economy and markets over the next 6–12 months. Our base case is resilient growth and moderating inflation, supported by three interconnected buffers – but risks are widening. With yields near the highest level in two decades, bonds may offer compelling income and resilience across a wide range of outcomes.

## Macroeconomic takeaways

Resilient growth and moderating inflation are supported by AI investment, consumer spending, and financial conditions – but a failure in one buffer could pressure the others.

### FRAGMENTATION AND RESILIENCE

Major economies are withstanding higher tariffs, energy prices, and fiscal deficits



### AI INVESTMENT CYCLE

AI capital spending is supporting economic activity, productivity expectations, and risk appetite

### RANGE OF OUTCOMES

Risks may rise if the AI boom fades, the energy shock worsens, or financial conditions tighten

## Investment opportunities

Given today's macro environment and elevated yields, we believe the case for bonds remains powerful. Rethink cash, rebalance, and stay invested – time in the market may matter more than timing it.

### SUPPORTIVE BOND BACKDROP

Central banks' commitment to containing inflation may reduce uncertainty and support bonds

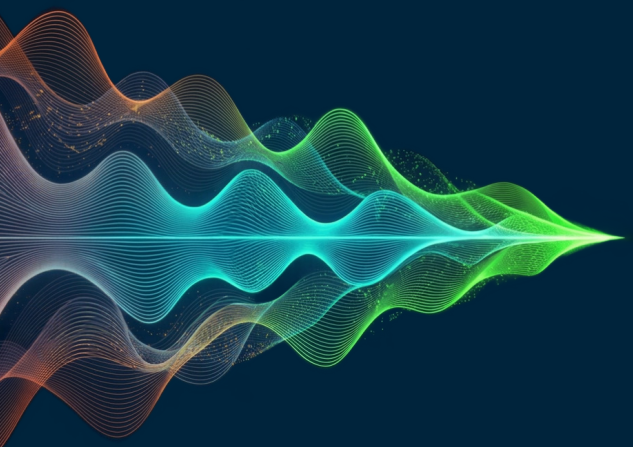
### YIELD AND DIVERSIFICATION

Elevated yields offer potential income and downside mitigation, while global diversification supports resilience

### SELECTIVITY IN CREDIT AND AI

Emphasize relative value and downside mitigation, seeking adequate risk compensation

Explore the full outlook and analysis on pimco.com/cyclical



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# Five Questions Clients Are Asking

Our baseline sees resilient growth and moderating inflation over the next 6–12 months, but risks around it are widening. These are the questions clients are asking most.

## 1. Will recent and future spikes in energy prices force the Fed to hike the U.S. into a recession, and what does that mean for my portfolio?

**No, not in our baseline scenario.** We expect growth to hold and the Fed to stay patient. For your portfolio, the Fed's commitment to containing inflation can support bonds, and today's starting income helps support returns.

## 2. Why move beyond cash when T-bills, CDs, and money markets still pay well?

**Because cash yields can fall.** We don't expect a full hiking cycle, so reinvestment risk remains. Bonds seeks to secure yields near the highest level in two decades, offering potential income and downside mitigation cash can't. Diversifying across developed and emerging markets adds resilience.

## 3. Corporate bond yields look attractive, but with credit spreads near historic tights, are investors taking on too much risk for too little reward?

**Not if you're selective.** Valuations may not fully reflect the risks, especially in AI-related credit, so favor downside hedging, along with high-quality collateral and liquidity, and take risk only where compensation is adequate.

## 4. With the Fed raising short-term rates, why lock into bonds now?

**Because starting yields matter.** Higher real yields, now back at pre-financial-crisis levels, have pushed rates up. Today's high starting yields create a broader path to positive returns, so we favor high-quality global bonds in the intermediate part of the curve.

## 5. Will rate hikes fix inflation driven by oil, or is inflation stickier than expected?

**We expect inflation to moderate.** Energy has lifted headline inflation, but oil markets point to easing, and household savings are helping absorb higher costs. Real assets such as TIPS and commodities may help protect purchasing power.

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

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