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PM CHARTBOOK

Charting Market Views on Interest Rates With Richard Clarida

OCTOBER 2025

Former Federal Reserve Vice Chair Richard Clarida charts key signals for interest rates and the economy – and what they could mean for investors.

IMPORTANT NOTICE

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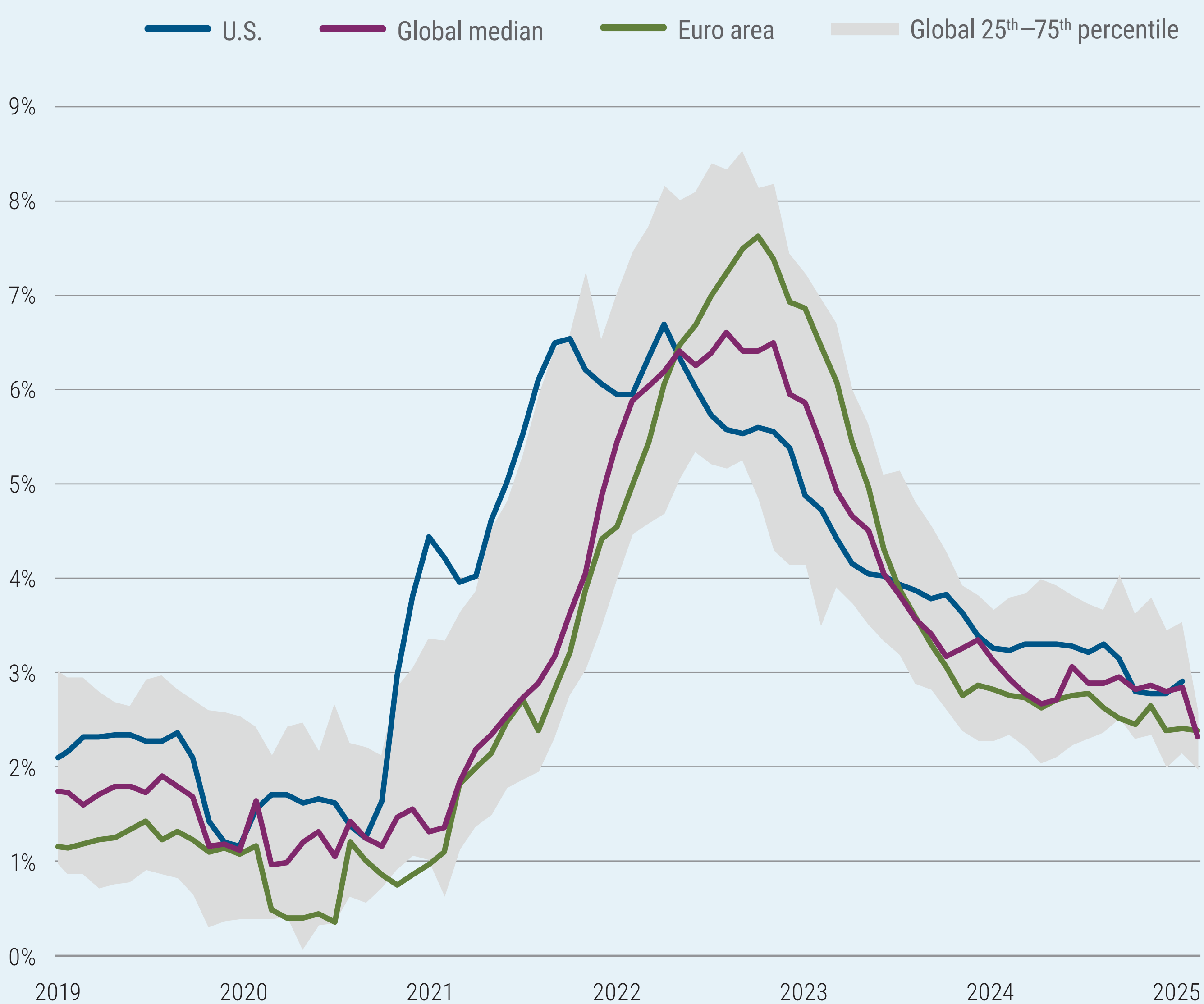
Monetary policy walks the inflation tightrope

The balance of risks to the Fed's dual mandate (price stability and maximum employment) prompted the central bank to lower its policy rate in September in an effort to bolster the economy and employment. However, U.S. inflation remains above the Federal Reserve's target and is elevated relative to global peers.

We expect additional rate cuts, but not down to the near-zero levels that could rekindle high inflation. Well-anchored inflation expectations likely inform Fed decisions at least as much as current prices and recent trends do. Thus far, tariff-related price pressures do not appear to have significantly affected inflation expectations.

Source: Haver Analytics and PIMCO calculations as of August 2025. For the 25th–75th percentile, the Consumer Price Index (CPI) was used for Australia, Canada, Japan, U.S., China, India, Brazil, South Korea, Mexico, Indonesia, Israel, Turkey, Russia, Egypt, Poland, Philippines, Vietnam, Colombia, Hungary, South Africa, and Thailand. The Harmonized Index of Consumer Prices (HICP) was used for Ireland, Germany, France, Belgium, Finland, Italy, Netherlands, Greece, Norway, Portugal, Spain, Sweden, Switzerland, U.K., and the euro area.

Global core CPI inflation



Bullish sentiment has returned to equity markets after a tariff-related dip: Stock prices don't signal recession, but how much of this is froth?

Indeed, the U.S. equity market has remained both buoyant and bullish, but how much of this is froth?

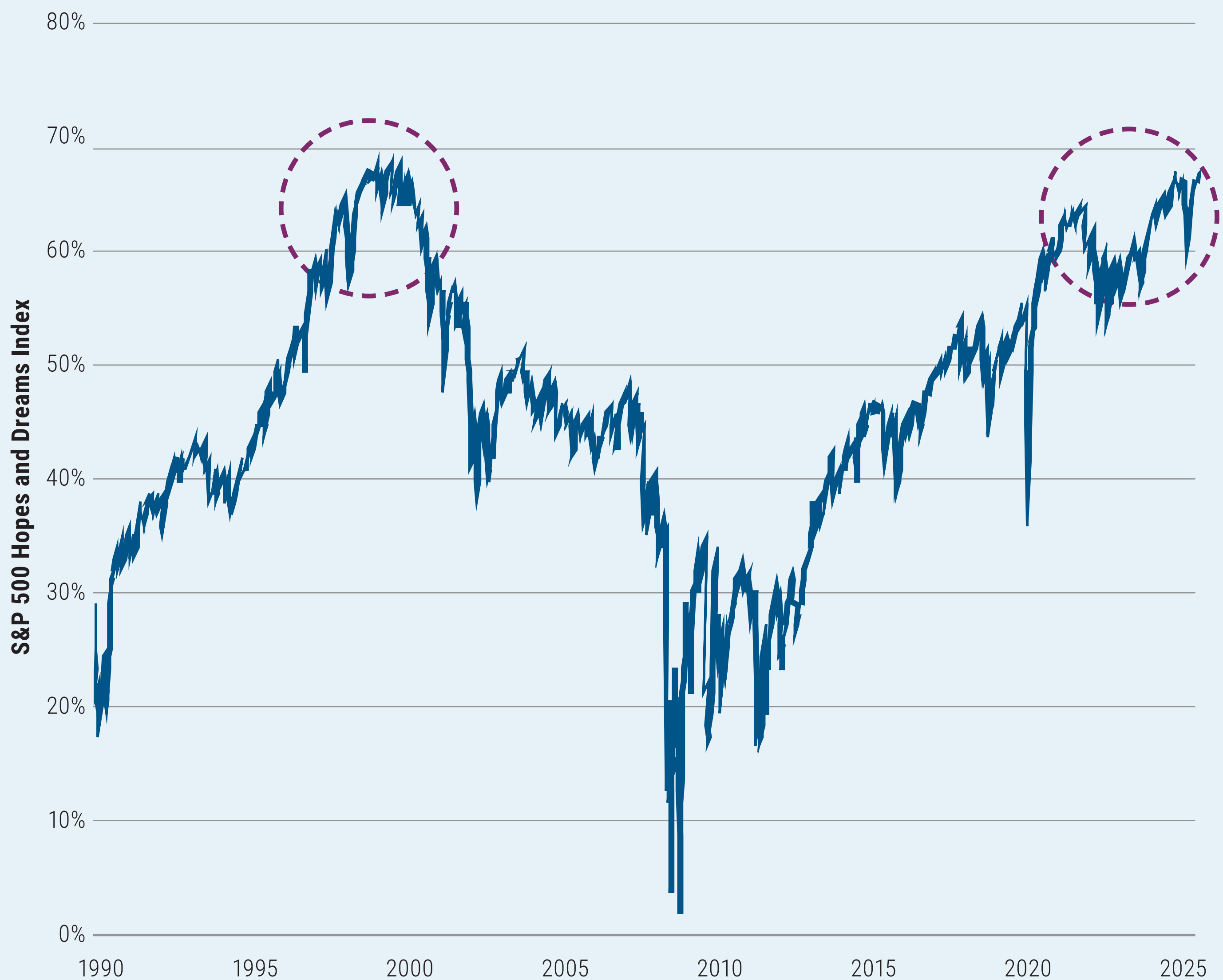
Nearly 70% of the value of the S&P 500 Index is not represented by those companies' book value or their earnings forecasts for next three years. This seems to reflect a great deal of trust in the overall strength of large U.S. companies.

This measure dipped in early 2025 following tariff-related turbulence but has since risen back near the exuberant level reached in November 2024 after the U.S. election – and prior to that, in the late 1990s tech bubble.

Source: Bloomberg data and PIMCO calculations as of August 2025. The S&P Hopes and Dreams Index, calculated by Cameron Crise from Bloomberg, tracks the remaining percentage of market value unexplained by the book value and the net present value of the next three years of earnings estimates for the companies. Refer to the disclosures for additional index information.

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

Percentage of S&P value not represented by book value and next 3 years' earnings expectations



Market pricing reflects expectations for long-term uncertainty

But while stock markets appear optimistic and inflation expectations seem stable for now, the J.P. Morgan Hawk-Dove score suggests some wariness among bond investors. The difference between 10-year U.S. Treasury yields and the nominal neutral rate has risen above the levels signaled in Fed communications. This gap suggests the market is pricing in more risk for the long term.

This could put upward pressure on long-term interest rates. It also signals elevated uncertainty about future inflation and growth.

Source: Bloomberg, J.P. Morgan, and PIMCO calculations as of August 2025. The J.P. Morgan Hawk-Dove score assesses central bank communications to estimate monetary policy tendencies. The nominal neutral rate (often called r* or r-star) is an estimate of an interest rate that neither stimulates nor hinders economic growth.
Refer to the disclosures for additional investment strategy, index, outlook, and risk information.
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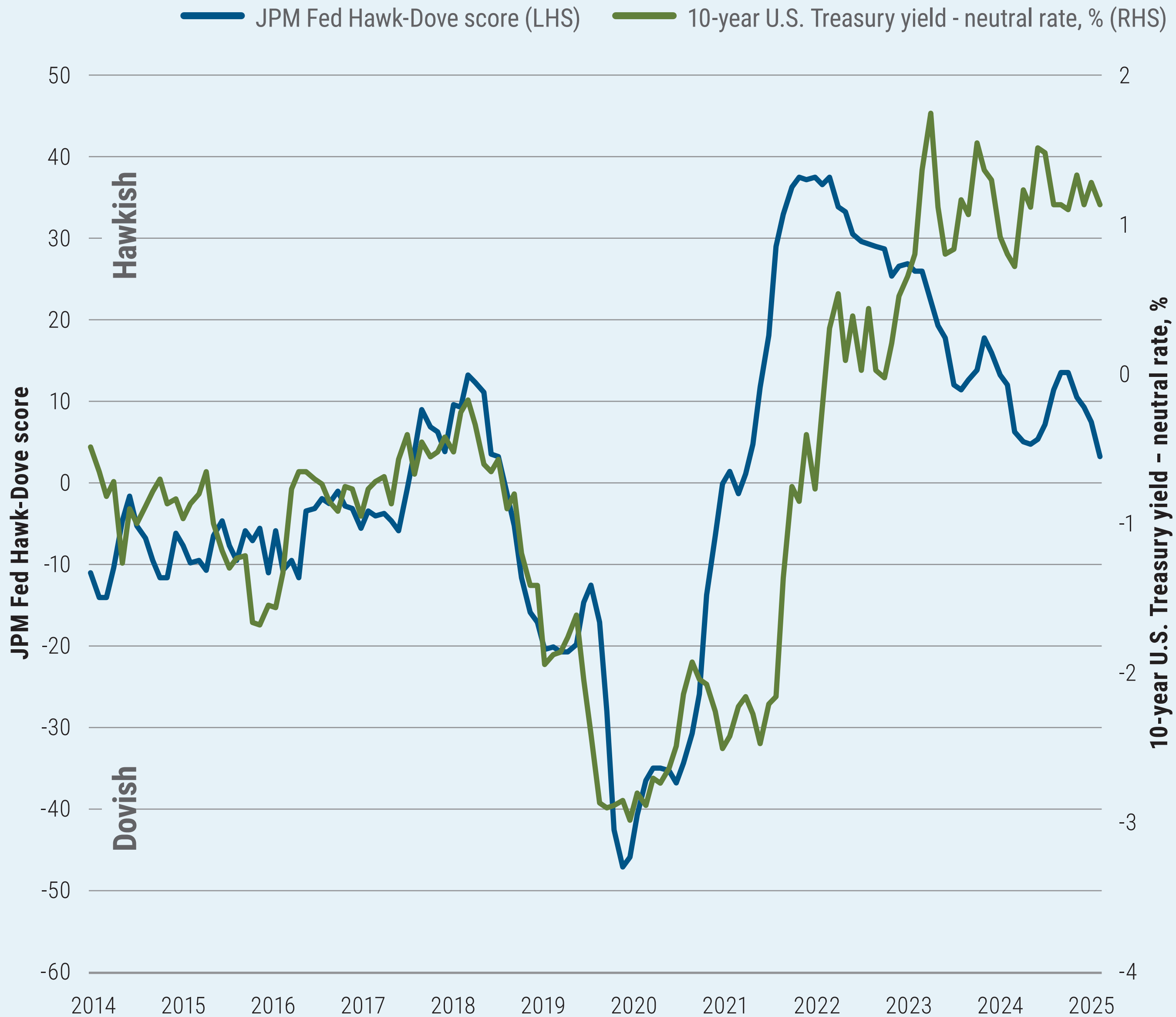
Fedspeak vs. the gap between 10-year U.S. Treasuries and the neutral rate



A long-term trend has reasserted itself: Benchmark U.S. bond index yield exceeds the Fed policy rate

In late 2024, the Bloomberg US Aggregate Bond Index yield rose above the Federal Reserve policy rate for the first time in more than a year and has stayed there – emphasizing the compelling starting point for bonds now.

It was extraordinary to have a benchmark bond yield running below – sometimes well below – the policy rate. Prior to the pandemic, this had happened only four times in this century.

Fixed income offers an attractive opportunity with high starting yields. Historically, bonds have performed well across a range of different rate-cutting scenarios, and downward moves in bond yields have tended to follow cuts in the Fed policy rate.

Source: U.S. Federal Reserve and Bloomberg as of September 2025. Yield-to-worst is the estimated lowest potential yield that can be received on a bond without the issuer actually defaulting.
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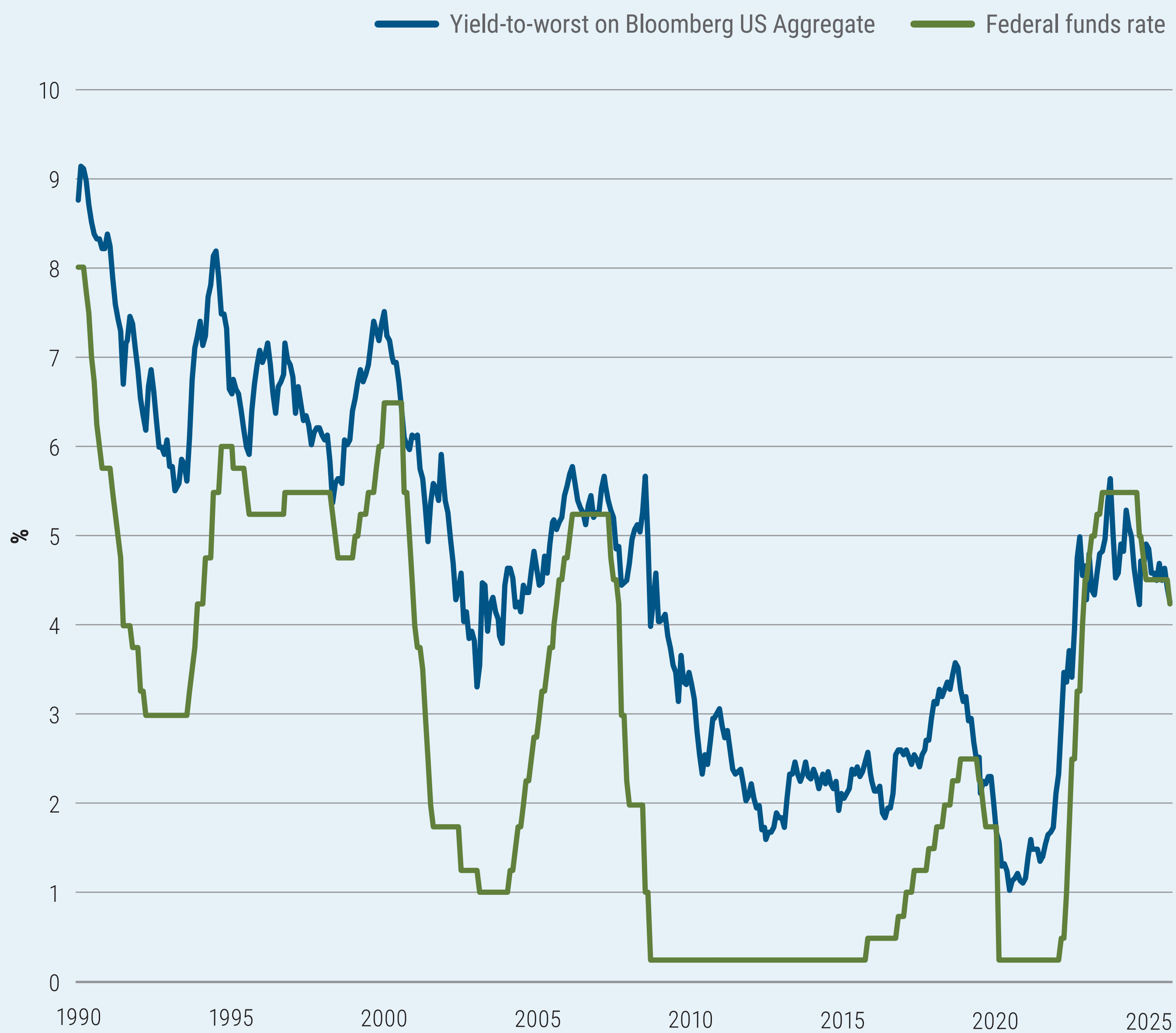
Yield-to-worst on the Bloomberg US Aggregate Bond Index versus the fed funds rate



Market signals in German and U.S. inflation-linked bonds

Looking beyond the U.S., another long-term trend has returned during the post-pandemic recovery period: The yield on German 10-year inflation-indexed Bunds (or "linkers") has remained in positive territory for nearly two years, after more than a decade below zero.

Linker yields still significantly lag the inflation-indexed yield on U.S. Treasury Inflation-Protected Securities (TIPS). TIPS yields have been hovering around 2% since 2023, but previously had been lower – even negative – in the low-inflation environment that followed the global financial crisis.

Higher inflation-indexed yields are another signal that fixed income may be an attractive, risk-aware investment in today's uncertain macroeconomic environment.

Source: Bloomberg data and PIMCO calculations as of August 2025. Refer to the disclosures for additional investment strategy, index, outlook, and risk information.
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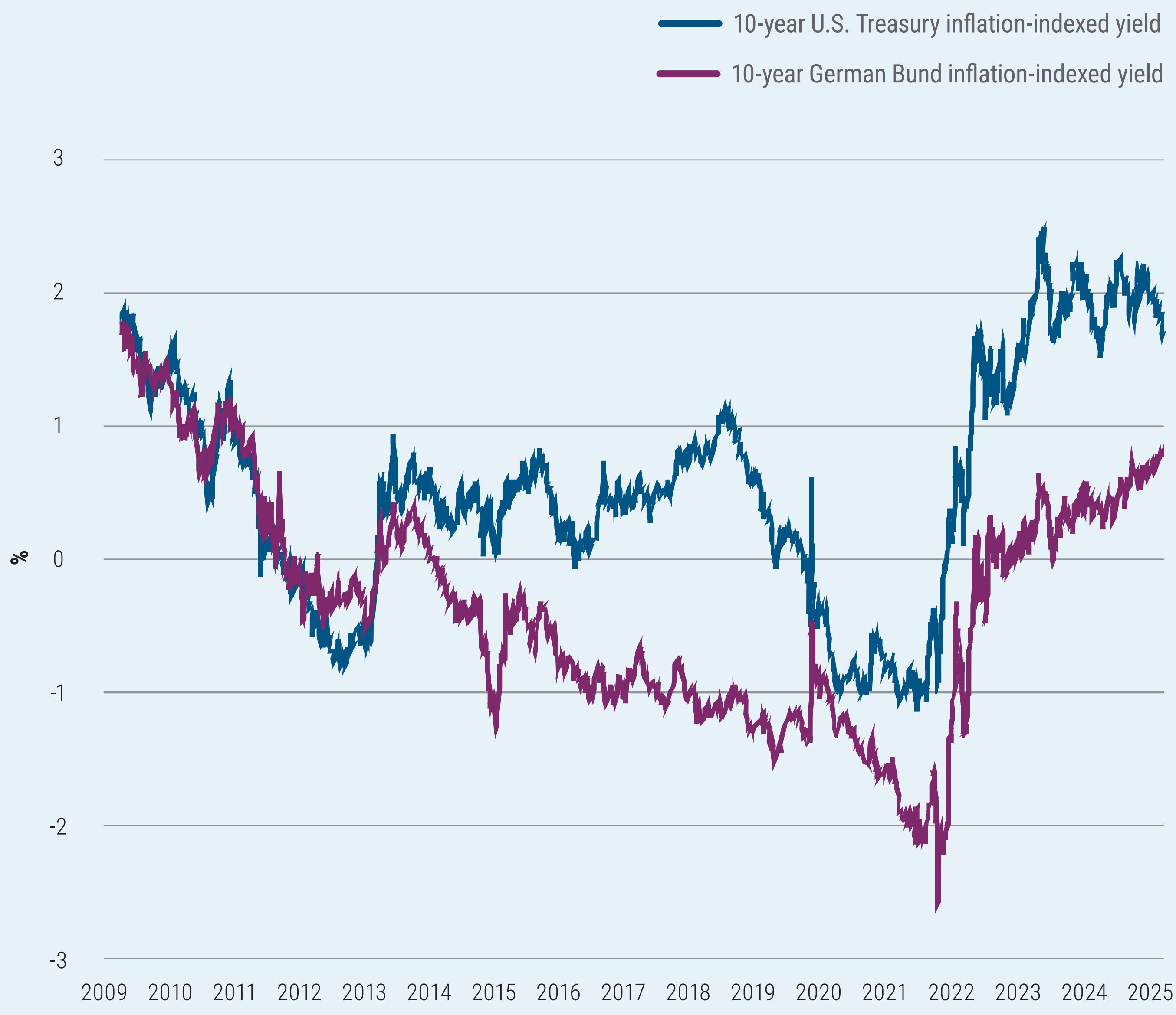
Inflation-indexed yields on 10-year U.S. Treasuries and German Bunds



Disclosures

PERFORMANCE
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INDEX
It is not possible to invest directly in an unmanaged index.
CPI, or Consumer Price Index, measures the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services. The S&P Hopes and Dreams Index, calculated by Cameron Crise from Bloomberg, tracks the remaining percentage of market value unexplained by the book value and the net present value of the next three years of earnings estimates for the companies. The J.P. Morgan Hawk-Dove score assesses central bank communications to estimate monetary policy tendencies. The nominal neutral rate (often called r* or r-star) is an estimate of an interest rate that neither stimulates nor hinders economic growth. The Yield-to-Worst on the Bloomberg U.S. Aggregate Index represents the lowest potential yield an investor could receive on a bond from the index, without the bond defaulting. The 10-year U.S. Treasury inflation-indexed yield is a daily rate representing the real yield on Treasury Inflation-Protected Securities (TIPS) with a 10-year maturity. The 10-year German Bund inflation-indexed yield represents the real yield of Inflation-linked Federal bonds (ILB) with a 10-year maturity.

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