

# Income Strategy Update: Focus on Stability Amid Turbulence

## AUTHORS



**Daniel J. Ivascyn**  
Group Chief  
Investment Officer



**Esteban Burbano**  
Managing Director  
Fixed Income Strategist

We maintain a focus on resiliency as elevated yields within high quality fixed income continue to offer attractive opportunities.

## Summary

- Despite some exemptions, pauses, and negotiations around U.S. tariff policy, trade-related uncertainty remains elevated, driving continued market volatility and underscoring our conviction in high quality, globally diversified fixed income.
- Equity valuations remain tight, and with the potential for front-end interest rates to come down in the second half of the year, intermediate-maturity fixed income remains attractive versus both equities and cash, in our view.
- With a flexible, global toolkit and robust liquidity, the Income Strategy remains well-positioned to capitalize on opportunities amid volatility.

Markets have roiled from the dramatic and evolving tariff policies of the Trump administration. Here, Dan Ivascyn, who manages the PIMCO Income Strategy with Alfred Murata and Josh Anderson, responds to questions from Esteban Burbano, fixed income strategist, about market volatility and uncertainty. They discuss the importance of stability in this uncertain macro environment and the attractive opportunities in bonds, as yields remain high.

### **Q: Markets have been volatile as the Trump administration pursues a new tariff regime. How do you view the volatility in the context of the macro environment?**

**A:** This period of volatility is unique in that it is related to a conscious policy decision and style of implementation rather than an exogenous shock. We had expected uncertainty from President Donald Trump's policies, as he widely telegraphed that resetting global trade would be a key priority. Trump has been a proponent of tariffs since the 1980s, long before he held office. But

we, and many others, were surprised by the absolute level of tariffs and the Trump administration's method of calculating them.

The macro ramifications could be troubling. We believe the extreme level of proposed tariffs announced on 2 April would meaningfully raise the chances of a U.S. recession and higher inflation. Subsequent negotiations and reprieves have lowered the temperature somewhat, but trade-related uncertainty is likely to persist.

Our base case is there will be further productive negotiations with many of the U.S.'s trading partners seeking to limit or avoid reciprocal tariffs, while the universal 10% tariffs will remain. More targeted tariffs on select industries are likely here to stay.

While April's market volatility was significant – and many investors were unnerved in particular by the sharp rise we saw in the 10-year U.S. Treasury yield – bond yields overall remain high and are attractive in our view, both in absolute terms and relative to other segments of the market. Additionally, we expect such periods of uncertainty and volatility to create opportunities.

**Q: The dramatic market volatility has led to some questions about whether markets remain well-functioning. What are you seeing?**

**A:** Markets are functioning fine; they're just moving around a lot. As with previous episodes of volatility, we see some early selling in higher-quality assets as investors liquidate what they can to de-risk, deleverage, or raise liquidity. This in turn can lead to some spread widening in the higher-quality segments of bond markets. These segments are generally default-resistant, in our view, with limited material risk of downgrades or defaults.

However, we are mindful of more credit-oriented borrowers that are highly leveraged. A recessionary shock at a time when covenants are weak and spreads are tight could pose challenges, and there's arguably a bit of complacency in these markets.

As a result, we continue to believe in this environment that it's wise to maintain resilience by focusing on high quality assets and by seeking stability, as we mention in [our latest Cyclical Outlook](#).

**Q: How do you see the Federal Reserve navigating this period of uncertainty?**

**A:** The Fed is in a difficult position, facing the potential for stagflation. As I said, tariffs could accelerate inflation even further above the Fed's target, and even if we see enduring trade deals, inflation is likely to remain elevated for longer. At the same time, these trade policies can weigh on growth.

We expect the Fed will look for greater clarity over tariffs and other policies of the Trump administration. We think it's likely the Fed will be patient to the degree that markets continue to function in an orderly manner, and Fed officials will be very careful about appearing to provide more direct stimulus to the economy at a time when inflation is running above central bank targets. That said, a sharp decline in economic data, especially if unemployment rises significantly, could prompt the Fed to cut rates more aggressively in the latter half of 2025.

**Q: With such extreme volatility, how should investors think about bonds versus other assets?**

**A:** Things are highly fluid, but as of this conversation, while equity valuations have loosened somewhat, they remain tight on a historical basis, particularly when compared with high quality bonds. Similarly, credit spreads have widened but still remain relatively narrow versus recent history.

An interesting question now is why have valuations in riskier assets not sunk further? One reason is very powerful technicals – think of a coil wound tight. A great deal of credit has shifted to private markets, where it's not typical to mark to market that risk. Another reason is that recent market volatility has clearly resulted from Trump administration policy decisions, with investors unsure of the extent to which the administration will calibrate policy to market reactions.

The silver lining is that if investors get greater clarity on the administration's reaction function, markets could snap back, particularly in those higher-quality areas where spreads have widened recently. Indeed, we have already seen the administration appear to demonstrate some sensitivity to Treasury market moves, and how markets can rebound following adjustments in tariff policy.

**Q: How are you thinking about duration and curve positioning in this environment in the context of the Income Strategy?**

**A:** We are generally neutral to slightly overweight on duration, but if the market overshoots, we would certainly consider adding a bit more interest rate exposure.

Considering the significant macro and policy uncertainty, we are generally underweight the long end of yield curves, favoring more short- to intermediate-term maturities. And alongside U.S. exposures, we continue to diversify our interest rate risk globally, favoring the U.K. and Australia, for example. Additionally, duration in Europe is an interesting space to watch as parts of the region commit to greater spending on defense.

**Q: How are you thinking about credit and positioning credit exposure in the Income Strategy?**

**A:** We continue to see attractive return potential in higher-quality assets, especially as we have seen some repricing while fundamental risks have not appeared to increase. Despite credit spreads becoming gradually more attractive, we remain patient given elevated uncertainty, and we stand poised to add credit exposure should we see more significant selling of corporate cash bonds. Currently, we tend to maintain a preference for senior structured credit.

Consumer asset-backed risk remains generally resilient, in our view, as U.S. consumers overall are in a fundamentally strong financial position. For years, home prices have risen, and we are seeing loan-to-value ratios across pools of mortgage assets below 50%. Such homeowners are compelling prospects to provide an auto loan or co-sign on a student loan. We also look for opportunities globally to capitalize on attractive consumer fundamentals outside of the U.S.

**Q: What are your views on agency mortgage-backed securities (MBS)?**

**A:** Agency MBS continue to look attractive on a relative basis. While we have seen some spread widening versus Treasuries amid recent interest rate volatility, the asset class has generally performed well this year, exhibiting its traditional defensive characteristics. We continue to have the unusual situation where agency mortgage spreads are actually wider than investment grade corporate spreads, allowing us to pick up additional yield in an asset class that benefits from a U.S. agency or U.S. government guarantee.

To that point, our base case is that the mortgage agencies (often called government-sponsored enterprises or GSEs) will likely remain part of the U.S. government. Outside of the base case, if the Trump administration looks to privatize the GSEs, we believe privatization would be done in a way that maintains the high quality of agency MBS.

**Q: How is the Income Strategy positioned in emerging market (EM) investments?**

**A:** We remain selective in our exposure to emerging markets given broader geopolitical and macro uncertainty. Nonetheless, we maintain a modest allocation to EM debt as a source of yield and diversification, focusing on countries with attractive levels of real yield versus the U.S.

While we anticipate continued trade tension with China, negotiations with trading partners in Southeast Asia and South America may provide a favorable tailwind for longer-term performance.

**Q: Finally, let's end on currencies. While not necessarily a large portion of the Income Strategy, currencies are a critical component of a global toolkit. What are your views on the U.S. dollar versus other currencies?**

**A:** The administration's policies could lead to further dollar weakness over the long term. Strong demand for the dollar has long reflected both its status as the global reserve currency and U.S. exceptionalism, the latter of which has been at least partially eroded over the last couple of months. Thus, we are tending to maintain a slight underweight to the dollar with an eye to move further underweight as markets develop. (For details, please see our recent *PIMCO Perspectives*, "[Trade Wars and the U.S. Dollar](#).") With the adjustments to global trade underway, we see a very exciting environment to take advantage of relative value in currency trading across a handful of developed and emerging market currencies.

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

**A word about 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 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. 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. References to Agency and non-agency mortgage-backed securities refer to mortgages issued in the United States. U.S. agency mortgage-backed securities issued by Ginnie Mae (GNMA) are backed by the full faith and credit of the United States government. Securities issued by Freddie Mac (FHLMC) and Fannie Mae (FNMA) provide an agency guarantee of timely repayment of principal and interest but are not backed by the full faith and credit of the U.S. government. **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. **Currency rates** may fluctuate significantly over short periods of time and may reduce the returns of a portfolio. **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 ensure against loss.

The **credit quality** of a particular security or group of securities does not ensure the stability or safety of the 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.

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 their ability to invest long-term, especially during periods of downturn in the market. Investors should consult their investment professional prior to making an investment decision.

This material contains the current opinions of the manager and such opinions are subject to change without notice. This material is distributed for informational purposes only and should not be considered as investment advice or a recommendation of any particular security, strategy or investment product. Information contained herein has been obtained from sources believed to be reliable, but not guaranteed.

PIMCO as a general matter provides services to qualified institutions, financial intermediaries and institutional investors. Individual investors should contact their own financial professional to determine the most appropriate investment options for their financial situation. This is not an offer to any person in any jurisdiction where unlawful or unauthorized. | **Pacific Investment Management Company LLC**, 650 Newport Center Drive, Newport Beach, CA 92660 is regulated by the United States Securities and Exchange Commission. | **PIMCO Europe Ltd (Company No. 2604517, 11 Baker Street, London W1U 3AH, United Kingdom)** is authorised and regulated by the Financial Conduct Authority (FCA) (12 Endeavour Square, London E20 1JN) in the UK. The services provided by PIMCO Europe Ltd are not available to retail investors, who should not rely on this communication but contact their financial adviser. Since PIMCO Europe Ltd services and products are provided exclusively to professional clients, the appropriateness of such is always affirmed. | **PIMCO Europe GmbH (Company No. 192083, Seidlstr. 24-24a, 80335 Munich, Germany)**, **PIMCO Europe GmbH Italian Branch (Company No. 10005170963, Via Turati nn. 25/27 (angolo via Cavaliere n. 4) 20121 Milano, Italy)**, **PIMCO Europe GmbH Irish Branch (Company No. 909462, 57B Harcourt Street Dublin D02 F721, Ireland)**, **PIMCO Europe GmbH UK Branch (Company No. FC037712, 11 Baker Street, London W1U 3AH, UK)**, **PIMCO Europe GmbH Spanish Branch (N.I.F. W2765338E, Paseo de la Castellana 43, Oficina 05-111, 28046 Madrid, Spain)**, **PIMCO Europe GmbH French Branch (Company No. 918745621 R.C.S. Paris, 50-52 Boulevard Haussmann, 75009 Paris, France)** and **PIMCO Europe GmbH (DIFC Branch) (Company No. 9613, Unit GD-GB-00-BC-05-0, Level 15, Gate Building, Dubai International Financial Centre, United Arab Emirates)** are authorised and regulated by the German Federal Financial Supervisory Authority (BaFin) (Marie-Curie-Str. 24-28, 60439 Frankfurt am Main) in Germany in accordance with Section 15 of the German Securities Institutions Act (WpIG). The Italian Branch, Irish Branch, UK Branch, Spanish Branch and French Branch are additionally supervised by: (1) Italian Branch: the Commissione Nazionale per le Società e la Borsa (CONSOB) (Giovanni Battista Martini, 3 - 00198 Rome) in accordance with Article 27 of the Italian Consolidated Financial Act; (2) Irish Branch: the Central Bank of Ireland (New Wapping Street, North Wall Quay, Dublin 1 D01 F7X3) in accordance with Regulation 43 of the European Union (Markets in Financial Instruments) Regulations 2017, as amended; (3) UK Branch: the Financial Conduct Authority (FCA) (12 Endeavour Square, London E20 1JN); (4) Spanish Branch: the Comisión Nacional del Mercado de Valores (CNMV) (Edison, 4, 28006 Madrid) in accordance with obligations stipulated in articles

168 and 203 to 224, as well as obligations contained in Tile V, Section I of the Law on the Securities Market (LSM) and in articles 111, 114 and 117 of Royal Decree 217/2008, respectively, (5) French Branch: ACPR/Banque de France (4 Place de Budapest, CS 92459, 75436 Paris Cedex 09) in accordance with Art. 35 of Directive 2014/65/EU on markets in financial instruments and under the surveillance of ACPR and AMF, and DIFC Branch: Regulated by the Dubai Financial Services Authority ("DFSA") (Level 13, West Wing, The Gate, DIFC) in accordance with Art. 48 of the Regulatory Law 2004. The services provided by PIMCO Europe GmbH are available only to professional clients as defined in Section 67 para. 2 German Securities Trading Act (WpHG). They are not available to individual investors, who should not rely on this communication. According to Art. 56 of Regulation (EU) 565/2017, an investment company is entitled to assume that professional clients possess the necessary knowledge and experience to understand the risks associated with the relevant investment services or transactions. Since PIMCO (Schweiz) GmbH services and products are provided exclusively to professional clients, the appropriateness of such is always affirmed. | **PIMCO (Schweiz) GmbH (registered in Switzerland, Company No. CH-020.4.038.582-2, Brandschenkestrasse 41 Zurich 8002, Switzerland)**. According to the Swiss Collective Investment Schemes Act of 23 June 2006 ("CISA"), an investment company is entitled to assume that professional clients possess the necessary knowledge and experience to understand the risks associated with the relevant investment services or transactions. Since PIMCO (Schweiz) GmbH services and products are provided exclusively to professional clients, the appropriateness of such is always affirmed. The services provided by PIMCO (Schweiz) GmbH are not available to retail investors, who should not rely on this communication but contact their financial adviser. | **PIMCO Asia Pte Ltd** (8 Marina View, #30-01, Asia Square Tower 1, Singapore 018960, Registration No. 199804652K) is regulated by the Monetary Authority of Singapore as a holder of a capital markets services licence and an exempt financial adviser. The asset management services and investment products are not available to persons where provision of such services and products is unauthorised. | **PIMCO Asia Limited** (Suite 2201, 22nd Floor, Two International Finance Centre, No. 8 Finance Street, Central, Hong Kong) is licensed by the Securities and Futures Commission for Types 1, 4 and 9 regulated activities under the Securities and Futures Ordinance. PIMCO Asia Limited is registered as a cross-border discretionary investment manager with the Financial Supervisory Commission of Korea (Registration No. 08-02-307). The asset management services and investment products are not available to persons where provision of such services and products is unauthorised. | **PIMCO Investment Management (Shanghai) Limited**. Office address: Suite 7204, Shanghai Tower, 479 Lujiazui Ring Road, Pudong, Shanghai 200120, China (Unified social credit code: 91310115MA1K41MU72) is registered with Asset Management Association of China as Private Fund Manager (Registration No. P1071502, Type: Other). | **PIMCO Australia Pty Ltd** ABN 54 084 280 508, AFSL 246862. This publication has been prepared without taking into account the objectives, financial situation or needs of investors. Before making an investment decision, investors should obtain professional advice and consider whether the information contained herein is appropriate having regard to their objectives, financial situation and needs. To the extent it involves Pacific Investment Management Co LLC (PIMCO LLC) providing financial services to wholesale clients, PIMCO LLC is exempt from the requirement to hold an Australian financial services licence in respect of financial services provided to wholesale clients in Australia. PIMCO LLC is regulated by the Securities and Exchange Commission under US laws, which differ from Australian laws. | **PIMCO Japan Ltd**, Financial Instruments Business Registration Number is Director of Kanto Local Finance Bureau (Financial Instruments Firm) No. 382. PIMCO Japan Ltd is a member of Japan Investment Advisers Association, The Investment Trusts Association, Japan and Type II Financial Instruments Firms Association. All investments contain risk. There is no guarantee that the principal amount of the investment will be preserved, or that a certain return will be realized; the investment could suffer a loss. All profits and losses incur to the investor. The amounts, maximum amounts and calculation methodologies of each type of fee and expense and their total amounts will vary depending on the investment strategy, the status of investment performance, period of management and outstanding balance of assets and thus such fees and expenses cannot be set forth herein. | **PIMCO Taiwan Limited** is an independently operated and managed company. The reference number of business license of the company approved by the competent authority is (112) Jin Guan Tou Gu Xin Zi No. 015. The registered address of the company is 40F., No.68, Sec. 5, Zhongxiao East Rd., Xinyi District, Taipei City 110, Taiwan (R.O.C.), and the telephone number is +886 2 8729-5500. | **PIMCO Canada Corp.** (199 Bay Street, Suite 2050, Commerce Court Station, P.O. Box 363, Toronto, ON, M5L 1G2) services and products may only be available in certain provinces or territories of Canada and only through dealers authorized for that purpose. | **Note to Readers in Colombia:** This document is provided through the representative office of Pacific Investment Management Company LLC located at Carrera 7 No. 71-52 TB Piso 9, Bogota D.C. (Promoción y oferta de los negocios y servicios del mercado de valores por parte de Pacific Investment Management Company LLC, representada en Colombia.). | **Note to Readers in Brazil:** PIMCO Latin America Administradora de Carteiras Ltda. Av. Brg. Faria Lima, 3477 Itaim Bibi, São Paulo - SP 04538-132 Brazil. | **Note to Readers in Argentina:** This document may be provided through the representative office of PIMCO Global Advisors LLC AVENIDA CORRIENTES, 299, Buenos Aires, Argentina. | No part of this publication may be reproduced in any form, or referred to in any other publication, without express written permission. PIMCO is a trademark of Allianz Asset Management of America LLC in the United States and throughout the world. ©2025, PIMCO.