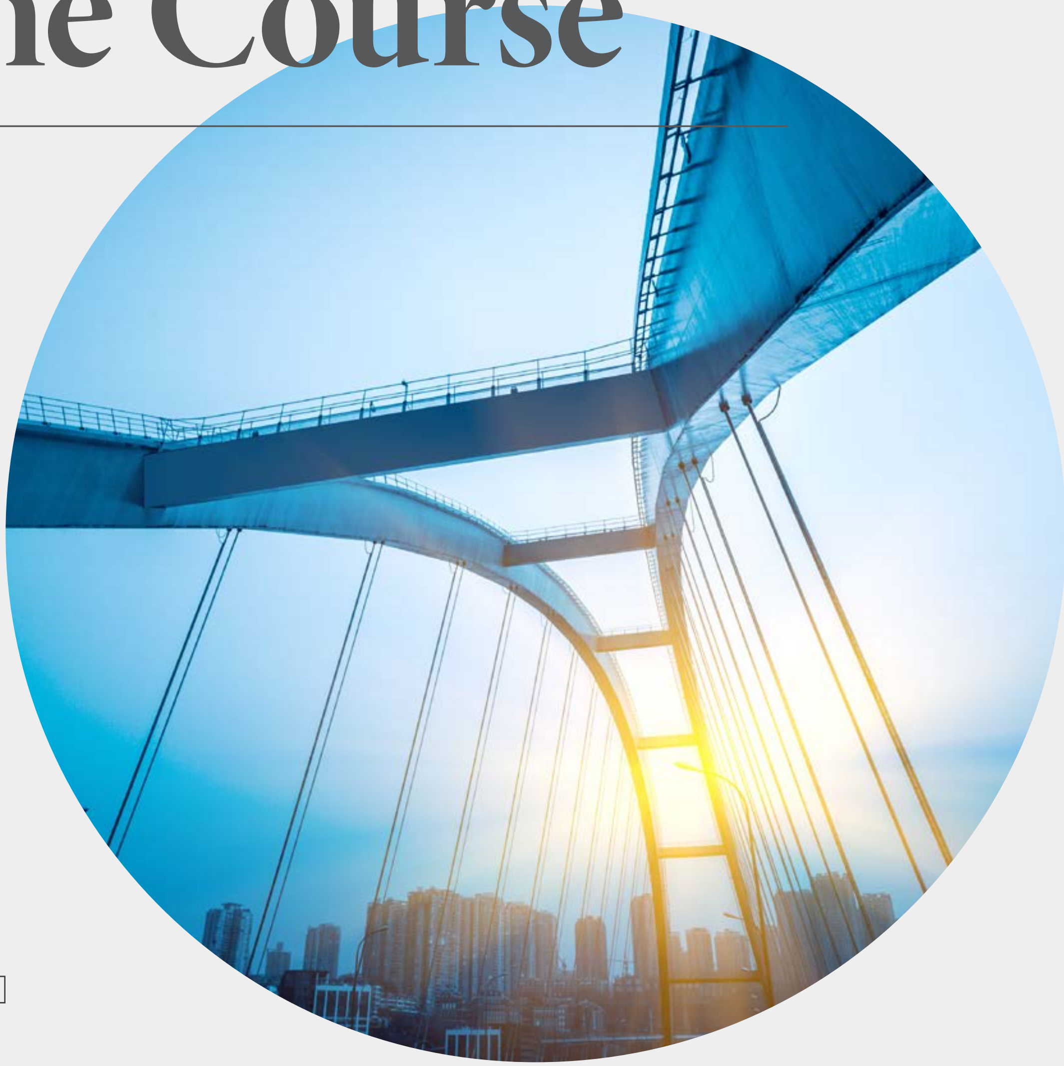
PIMCO

RISE ABOVE RATES

Stay the Course



EVEN AS BOND MARKETS CHANGE, THE REASONS TO INVEST REMAIN CONSTANT

For long-term savers, rising rates are nothing to fear. Most investors are familiar with the bond "seesaw" showing the inverse relationship between bond prices and interest rates: when one rises, the other falls. But the reality is more nuanced.

Here we highlight four reasons why bonds may be a valuable part of a diversified portfolio across interest rate environments.

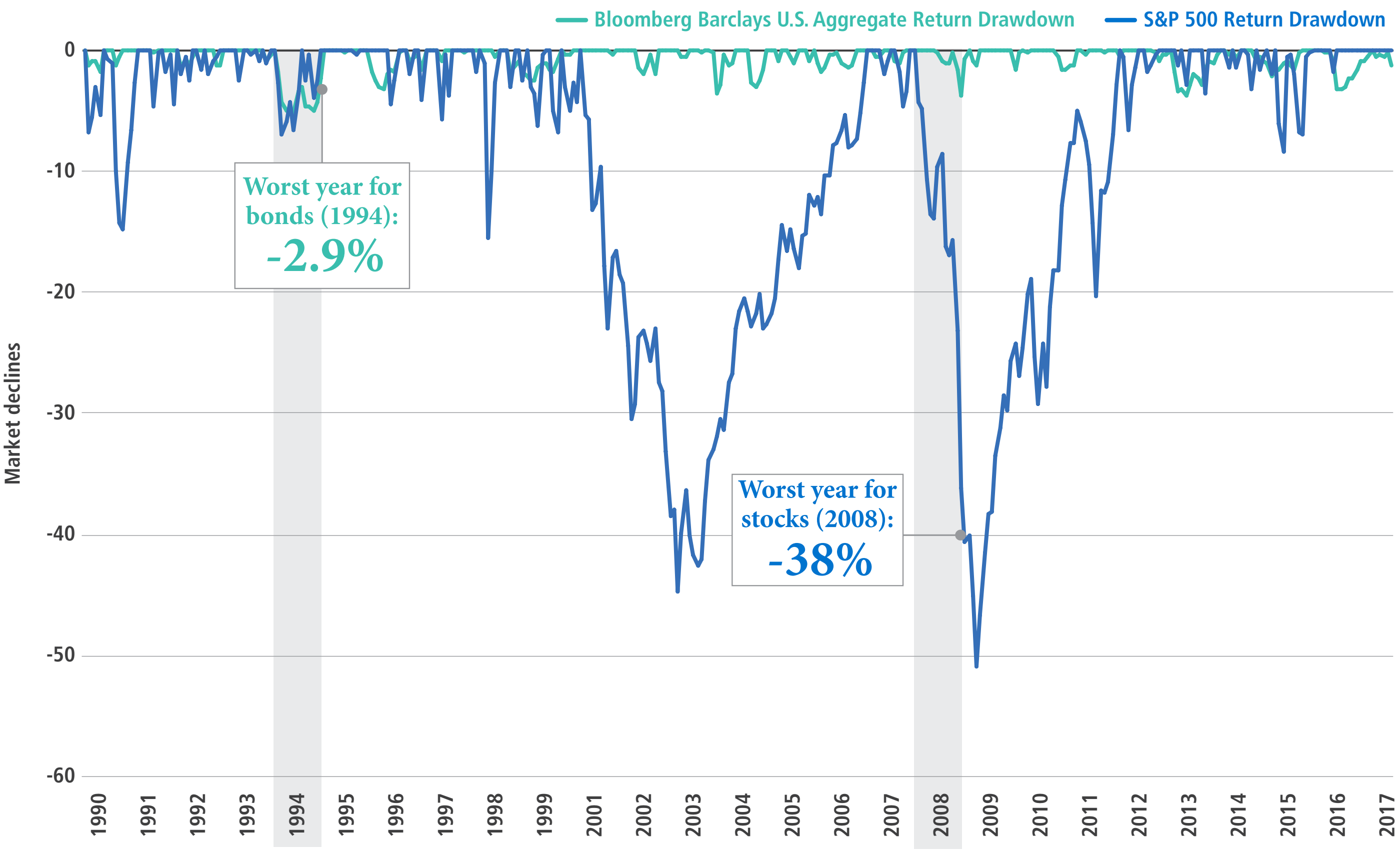
A company of Allianz

Lower volatility helps preserve capital

Bonds have historically provided capital preservation, income and growth, and diversification – essential goals for many investors – because of their low-to-negative correlations to stocks.

Bonds, particularly core bonds, have been less volatile than stocks. As the chart below shows, bond declines have been dramatically less severe than stocks – and usually short-lived.

A VAST DIFFERENCE IN "WORST CASE" SCENARIOS



Performance quoted represents past performance. **Past performance is not a guarantee or a reliable indicator of future results.**

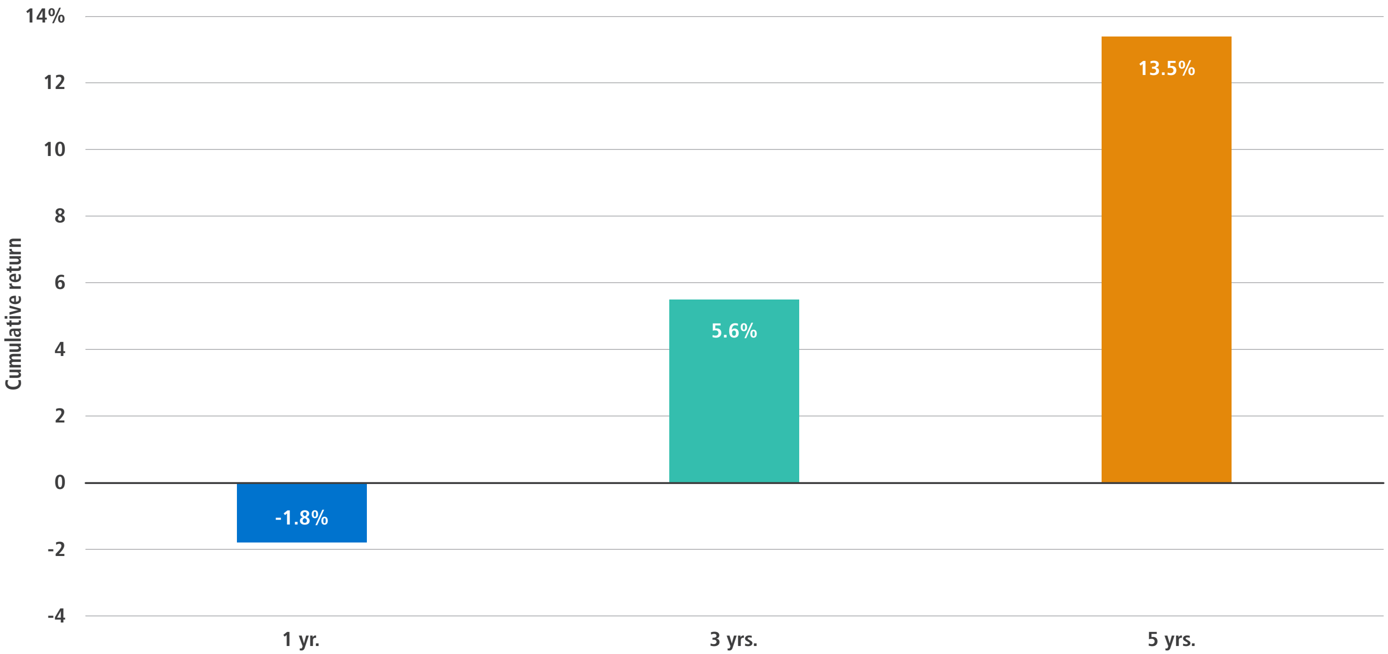
Source: Morningstar Direct. Chart shows U.S. stock and bond declines beginning December 1989 and ending December 2017. Stocks are represented by the S&P 500 Index, bonds by the Bloomberg Barclays U.S. Aggregate Index. Worst years are calendar years.

Rising rates build income

Because interest income is the primary driver of bond returns, the ability to reinvest into a gradually rising rate environment can help build long-term growth. When rates rise new bonds pay a higher coupon, increasing the income investors receive. By contrast, higher rates can be a headwind for stock investors, as increased borrowing costs weigh on corporate profits.

An increase in the income a bond produces also helps to offset the negative impact on its declining price – often quite quickly, as the chart below shows. Over time, rising income may provide a return advantage for investors.

THE UPSIDE OF RISING RATES



Hypothetical example for illustrative purposes only.

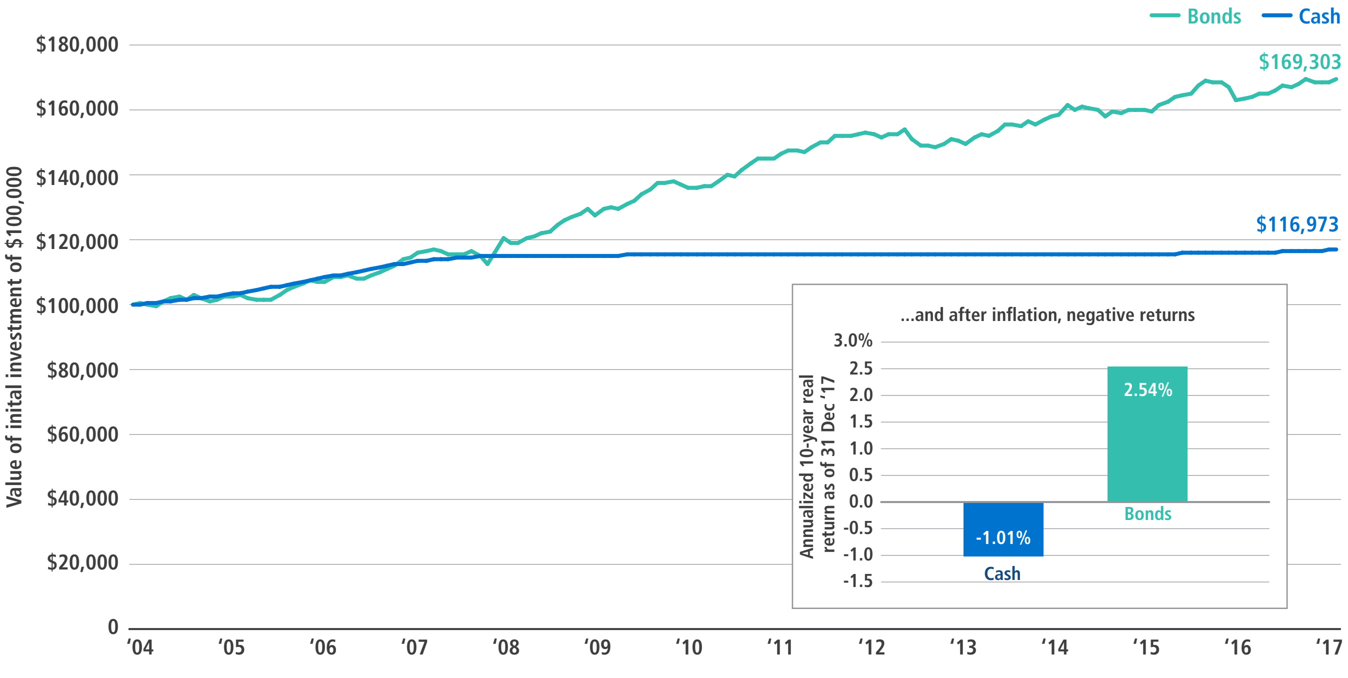
Source: PIMCO, as of 31 December 2017. The chart shows the estimated performance of the Bloomberg Barclays U.S. Aggregate Index assuming a parallel rate rise of 1%, and no further changes in rates thereafter. Credit spreads are assumed to remain constant. In the analysis contained herein, PIMCO has outlined hypothetical event scenarios which, in theory, would impact the index returns as illustrated in this analysis. No representation is being made that these scenarios are likely to occur or that any portfolio is likely to achieve profits, losses, or results similar to those shown. The scenarios do not represent all possible outcomes and the analysis does not take into account all aspects of risk. Total returns are estimated by re-pricing key rate duration replicating portfolios of par-coupon bonds.

Cash "safety" comes at a price

Investors concerned about rising rates may be tempted to exit the bond market into cash and short-term instruments such as money market funds and CDs, but it's important to recognize that there are costs. Although yields from short-term money market instruments have been steadily rising in parallel to the Fed's tightening cycle, PIMCO believes that rates will likely remain historically low. After accounting for inflation, that means cash and some short-term instruments may provide a negative return. That's a high price to pay for perceived safety.

Bonds almost always generate a higher rate of return than cash, money markets or CDs. Though their prices may fluctuate and there is more volatility and risk, bonds' compounding effect should work to your long-term advantage, as the chart below shows.

A SMOOTH BUT FLAT RIDE FROM CASH...



Hypothetical example for illustrative purposes only.

Source: U.S. bonds – Bloomberg Barclays U.S. Aggregate Index; cash – FTSE 3-Month Treasury Bill Index. Chart shows growth of $100,000 from 31 December 2004 to 31 December 2017. Inset chart shows annualized 10-year real return as of 31 December 2017. Cash is represented by the FTSE 3-Month Treasury Bill Index. Core bonds represented by the Bloomberg Barclays U.S. Aggregate Index. Inflation-adjusted returns are based on the Consumer Price Index (Bureau of Labor Statistics).

Rising rates don't impact all bonds the same

News about the bond market tends to focus on U.S. Treasuries, which tend to be the most sensitive to rising rates. In reality, the bond market is exceedingly diverse and global, encompassing corporate and high yield bonds, mortgage-backed securities, municipal bonds, emerging market bonds and others. Each sector or asset class responds differently to economic and market trends and some, such as floating-rate and investment grade bonds, even tend to do well in a rising-rate environment.

Although rising rates may temporarily depress the majority of bond prices, skilled active bond fund managers can find promising investment opportunities in an effort to diversify a portfolio, capture yield and defend against threats to capital.

COMBATING RATE INCREASES IN THE MARKET OF BONDS

Rate hike period	Basis points	U.S. Treasuries	MBS	Investment grade credit	Munis	High yield	Non-U.S. developed	Emerging markets
03/29/88 to 02/24/89	325	4.05%	5.39%	5.53%	7.47%	8.07%	n/a	n/a
02/04/94 to 02/01/95	300	-2.93%	-0.49%	-3.76%	-3.56%	-1.82%	-3.23%	-22.91%
06/30/99 to 05/16/00	175	2.59%	1.60%	-0.49%	-0.40%	-1.78%	4.05%	13.70%
06/30/04 to 06/29/06	425	4.90%	6.26%	5.43%	8.97%	15.63%	9.47%	24.84%
12/15/15 to 03/31/18	150	2.05%	3.12%	9.85%	4.92%	25.59%	9.50%	18.57%

Past performance is not a guarantee or a reliable indicator of future results. The performance data above is not representative of the performance of any PIMCO product.

Source: ICE BofAML U.S. Treasury Master Index; Bloomberg Barclays U.S. Agency Fixed Rate MBS Index; Bloomberg Barclays U.S. Credit Index; Bloomberg Barclays Municipal Index; Bloomberg Barclays U.S. High Yield 1% Issuer Cap Index; JP Morgan GBI Global Ex-U.S. USD Hedged Index; JP Morgan EMBI Global Index (measures external debt). The high yield and emerging markets indexes indexes did not exist during the periods marked n/a.

PIMCO

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 the current low interest rate environment increases this risk. Current 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. **Money Market** funds are not insured or guaranteed by FDIC or any other government agency and although the fund seeks to preserve the value of your investment at $1.00 per share, it is possible to lose money by investing in a fund. **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.

Hypothetical and simulated examples have many inherent limitations and are generally prepared with the benefit of hindsight. There are frequently sharp differences between simulated results and the actual results. There are numerous factors related to the markets in general or the implementation of any specific investment strategy, which cannot be fully accounted for in the preparation of simulated results and all of which can adversely affect actual results. No guarantee is being made that the stated results will be achieved.

Statements concerning financial market trends are based on current market conditions, which will fluctuate. There is no guarantee that these investment strategies will work under all market conditions or are suitable 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.

The ICE BofAML U.S. Treasury Index tracks the performance of U.S.-dollar-denominated sovereign debt publicly issued by the U.S. government in its domestic market. Qualifying securities must have at least a one-year remaining term to final maturity, a fixed coupon schedule and a minimum amount outstanding of $1 billion.

The Bloomberg Barclays U.S. Agency Index includes native currency agency debentures (Fannie Mae, Freddie Mac and Federal Home Loan Bank), and includes both callable and non-callable agency securities issued by U.S. government agencies, quasi-federal corporations, and corporate or foreign debt guaranteed by the U.S. government.

The Bloomberg Barclays U.S. Credit Index is an unmanaged index comprising publicly issued U.S. corporate and specified non-U.S. debentures and secured notes that meet the specified maturity, liquidity and quality requirements. To qualify, bonds must be Securities and Exchange Commission (SEC) registered.

The Bloomberg Barclays Municipal Bond Index consists of a broad selection of investment grade general obligation and revenue bonds with maturities ranging from one year to 30 years. It is an unmanaged index representative of the tax-exempt bond market. The index is made up of all investment grade municipal bonds issued after 31 December 1990 that have a remaining maturity of at least one year.

The Bloomberg Barclays U.S. Aggregate Index represents securities that are SEC-registered, taxable and dollar-denominated. The index covers the U.S. investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities and asset-backed securities. These major sectors are subdivided into more specific indexes that are calculated and reported on a regular basis.

The S&P 500 Index is an unmanaged market index generally considered representative of the stock market as a whole. The index focuses on the large-cap segment of the U.S. equities market.

The JPMorgan Emerging Markets Bond Index–Global is an unmanaged index that tracks the total return of U.S.-dollar-denominated debt instruments issued by emerging market sovereign and quasi-sovereign entities: Brady Bonds, loans, Eurobonds and local market instruments.

The Bloomberg Barclays High Yield Index is an unmanaged market-weighted index including only SEC-registered and 144(a) securities with fixed (non-variable) coupons. All bonds must have an outstanding principal of $100 million or greater, a remaining maturity of at least one year, a rating of below investment grade and a U.S. dollar denomination.

It is not possible to invest directly in an unmanaged index.

PIMCO Investments LLC, distributor, 1633 Broadway, New York, NY 10019, is a company of PIMCO.

PT024_60034

ABOUT PIMCO

PIMCO is one of the world's premier fixed income investment managers. Since our founding in 1971 in Newport Beach, California, we have continued to bring innovation and expertise to our partnership with clients seeking the best investment solutions. Today our professionals work in 13 offices across the globe, united by a single purpose: creating opportunities for investors in every environment.

CMR2018-0420-328118